Supply and Services Canada
Bureau of Management Consulting

Approvisionnements et Services Canada
Bureau des conseillers en gestion

Report

THE
ECONOMIC AND LEGAL DIMENSIONS
OF
REGISTERED INDUSTRIAL DESIGNS
IN CANADA

Canada

Supply and Services Canada
Approvisionnements et Services Canada

Bureau of Management Consulting
Bureau des conseillers en gestion

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EXECUTIVE SUMMARY

This report consists of two separate components each of which stands alone within its own realm but which go together to discuss the law and the economics of that part of Canada's intellectual and industrial property system known as registered industrial design. The study is part of a continuing process buy the federal Department of Consumer and Corporate Affairs to examine patents, copyrights, trademarks and registered industrial designs in the light of developments in the modern Canadian economy.

We had originally tried to prepare a report for the "educated layman" but due to the particular circumstances of the case that proved too difficult. Both the economic and legal areas have become highly specialized with certain terminology known mainly to the experts. However, others are still able to ask them some basic questions. For example, is it really necessary to provide legal protection against copying designs in order to promote general industrial design activity? Are not the other factors of the real economic situation, such as the costs of copying, the short-term product life-cycles, and the "secret" ways of making complex machines really work more significant? And, if the law promotes a proliferation of "mere gadgets" are we providing the right long-term economic incentives? Furthermore, if the law has become so complex that its main beneficiaries are the lawyers who fight each other in court cases, and the losers are those who cannot afford such legal advise, have we promoted what is needed as part of an overall economic development policy? Our comprehensive, general answer is that the law has not proven its value for promoting design activity, but, that due to other dimensions of the law, especially its interaction with copyright law, we have to retain a modified version of it in order to avoid other cumbersome interference with business activities. Therefore we have proposed a series of changes in the law to improve its operation as part of the whole package of intellectual and industrial property laws.

Part I: Economic Analysis

First, Part I of the Report examines the economic theory and rationale behind providing an intellectual property type of legal protection for certain (visual) aspects of industrial design products. (We do not discuss other policy

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methods to affect industrial design activity in this report.) As evaluative criteria we examine the impact of the law as it affects the allocation of resources, the distribution of benefits and costs and, the question of equity or fairness of the impact of the activities.

Design is both an activity and a product; the law protects the latter in order to promote both dimensions. The protection makes it illegal to copy another's registered design, for a specified period of up to ten years, because without such protection copying would often be fairly easy and inexpensive and thus the economic incentive to produce designs for new products would be reduced. The protection provides a limited monopoly with its higher product prices and this incentive is expected, in the long-run, to enhance social welfare because of those new product designs. We ask if there are good theoretical reasons and economic evidence to support this hypothesis for the case of the Industrial Design Act in Canada.

The "fairness" concept implies that persons of equal situation be treated equally. When we examined this concept the context of the Act we noted that there are many separate contributors to the process of product design in today's world and that there is no major justification to separate out only one of them as "the designer". Many other commercial activities (especially in the service sector) produce easily copied outputs or methods without special legal protection so the fairness arguement is weak in the context of much product design. Similarly the arguements that suggest that the relatively small Canadian community of designers is in such poor financial condition that this legal protection is absolutely essential to their well being is weak. Important numbers of designs are registered by foreign-based firms and a review of the design register showed that many "minor" products were registered and that some very significantly different design registration practices are carried on by direct competitors. The design-oriented business community thus appears to be far from unanimous in its use of and support for the protection.

In view of the above the major economic criterion for evaluating the Act then becomes allocative efficiency in the economy

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and the optimal level of product differentiation. We adopted the modern view that a product is the combination of qualities or characteristics and that product design and differentiation involves selecting different packages of such product attributes. Some new products produce greater resource savings because they are more efficient while other new products only increase consumer choice among alternatives. Since the Act explicitly excludes reference to operational features that might be resource saving its impact there is, at best, minimal. Thus this very desirable result of more efficiency does not provide support for the legal protection of the Industrial Design Act.

The expansion of product variety is not a clear cut benefit to the economy but it can be. To try to measure the net general effect of the Act we considered the general existence of economies of scale in Canadian industries that do use the Act for protecting their products. The evidence suggests, in general, that industries with very high degrees of product differentiation, (possibly excessive amounts to gain economies of scale at the product level), use the registration system more frequently then others. This evidence, coupled with the easy availability of patent protection and the extensive (70%) use of our registration system by non-Canadian residents yields a strong suggestion that the registration system provides minimal benefit to Canadian manufacturers in general, (although a few individual firms argue the opposite for their particular cases). Since the economic case is not clear cut, since some few can benefit, and, since the administrative and other economic costs are low, we recommend retention of the protection much as it now stands. However, we also support retention based on the legal arguements presented in Part II of the report, especially those related to the interaction with copyright law.

Part II: - Legal Implications

Second, Part II of this Report discusses the legal implications of the existing law on registered industrial designs based upon the conclusions of the economic analysis in Part I. However, Part II is also based upon the important interconnections among the other intellectual and industrial property laws, especially copyright law. In addition extensive consideration has been taken of the experience of other

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countries where these laws have been changed in the recent past. We also considered the evaluative panel of experts proposed by the Economic Council of Canada in its Reports Intellectual and Industrial Property but rejected it as an unsuitable option.

Since the economic analyses could not support the elimination of the Industrial Design Act we had to address the questions how to change it so that certain of its problems could be reduced and so that our other economic policy ideas could be integrated. The overall methodological approach to the development of recommendations was to analyse the impact of different optional ways of adjusting the law, including reference to foreign experience with such changes, and thus identify the preferred options. The general goal was to have a statute better suited to its main purpose, the reasonable protection of certain industrial designs.

The most important legally based conclusion that we reached was that the legal interconnections between copyright law and industrial design law are very strong. In particular, without the separate statute for designs there is a very high risk that the courts would start to interpret copyright law as being applicable to subject matter now covered by design law. The implication of such interpretations would be a dramatic extension of protection from the short 10 year maximum to the potentially very long "life of the author plus fifty years". We cannot support any policy change that would have such a result, especially considering how far its impact would reach into the whole economic system. Thus, we support retention of a modified protection for the visual aspects of certain industrial designs in such a way that copyright law is not applicable to protect the designs. Part II of the Report details the evidence and the relevant arguements extensively.

Given that an intellectual property law is to be retained there is a series of other features of it that can be changed so that new industrial designs get protected for a reasonable period but that also constrain the protection to the main purpose. These changes call for clarifications of existing parts of the law. In broad summary, (see text for details), we recommend:

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- that only the visual aspects of the design as applied to specific articles and none of the operational or function features be protected by registration, (Ch. 1),
- that only "originality" be required for registration and that there be no requirements for "inventiveness" or "novelty", mainly because of problems with their practical application, (Ch. 3),
- that registration only be accepted for designs not previously published and that greater public access be available to pending applications for registration, (Ch. 4)
- that series of designs with minor variations be accepted for registration, as in now the case, but that the design registered earliest set the expiry date for the protection of the set, (Ch. 5),
- that the Registrar of Industrial Designs be able to reject applications for suitable reasons including the abandonment of interest in the registration by the applicant and certain public objections, (Ch. 5),
- that the author of the design be the proprietor but that ownership belong to the employer for designs produced by employees, (Ch. 6),
- that design rights cannot be assigned territorially within Canada,
- that all transfers of design applications and registrations be registered, (Ch. 6),
- that the protection of the statute not be a general bar to stop all imports of products bearing the design, only to some that meet a definition of infringing copies, (Ch. 7),
- that the protection of the statute apply only against copying and not provide a total monopoly, (Ch. 7),
- that the term of protection be retained as five years for the initial term plus a five year renewal period, and that the renewal not be contingent upon "working" the designing in Canada, (Ch. 8),

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- that the ability of various parties to have a design registration cancelled be clarified and expanded, (Ch. 9), and,
- that compulsory licenses be granted under certain conditions, (Ch. 11).

There are, of course, many more detailed points and recommendations in the text to alter the law so that its economic impact will be somewhat different than it is at present. Taken together they offer a better and fairer package for Canada's economic climate during the next few decades.

The Study Team

The Report is a product provided by the Bureau of Management Consulting, (BMC), an agency of Supply and Services Canada, for the Department of Consumer and Corporate Affairs. The development and collection of background data for the economic analysis and project management was provided by Mr. William F. Barnicke of BMC. The specific text for Part I, the economic analysis, was prepared by Dr. Steven Globerman and Dr. Mitchell Rothman of Simon Fraser University in Vancouver, British Columbia. The specific text for Part II, the legal and adminsitrative analysis, was prepared by Professor Denis Magnusson now Dean of the Faculty of Law at Queen's University, Kingston, Ontario. While the two Parts can stand alone the Report consists of both components.

PART I

INDUSTRIAL DESIGN: ECONOMIC DIMENSIONS

NOTE TO READERS

This part of the Report examines the economic dimensions of the legal protection of industrial design under the intellectual property laws. It was prepared by Professors Steven Globerman and Mitchell Rothman now of Simon Fraser University, Burnaby, British Columbia and Mr. William F. Barnicke of the Bureau of Management Consulting, Supply and Services Canada, Ottawa.

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CHAPTER 1

INTRODUCTION

1.1 Background To The Study

The purpose of this study is to assess the Canadian *Industrial Design Act* and to make recommendations as to its retention, modification, or abolition. The basic approach taken to this assessment is to try to describe an optimal level of "industrial design activity" and to determine what place industrial design legislation can best assume in encouraging that level of activity. The analysis first uses the theoretical tools of welfare economics, and therefore considers industrial design activity as it affects all market participants, both consumers and producers, including industrial designers and others involved in production. The economic analysis concludes with the recommendation to retain the law. Therefore, the second part of the report switches to legal analysis and examines how the statute should be adjusted to achieve the policy goals better than at present.

The *Industrial Design Act* protects registered designs from unauthorized copying for a maximum period of ten years. By protecting the rights of designers, the Act is intended, among other possible goals, to encourage the production of new designs. This study uses the economists tools of social welfare analysis to answer the questions of whether and how design should be encouraged in order to maximize social welfare.

This study is part of a comprehensive review undertaken by the Bureau of Intellectual Property of the Department of Consumer and Corporate Affairs of the legislative protection of all intellectual property, including copyrights, trademarks, patents, and industrial designs. This specialized review follows the earlier (1971) general survey of intellectual property by the Economic Council of Canada which was presented in its *Report on Intellectual and Industrial Property*.[1] The consideration of the *Industrial Design Act* is necessarily in the context of this more general review of intellectual property legislation, both because many of the issues to be debated are structurally similar in all forms of such protection but also because of the potential for overlap between the *Industrial Design Act* and the other forms of protection, especially patents and copyrights. As a result, while this review will make recommendations only on the *Industrial Design Act*, it will be forced to deal in several places with the interactions between that Act and other forms of intellectual property protection.

This study takes into account all of the activity known as industrial design, whether or not its output could be protected under the existing statute. Since one possible outcome of this review is a recommendation of possible revisions to the Act in order to increase its effectiveness, we must first assess the value of industrial design activity as a whole. Then we will relate the desired level of industrial design to a legislative input by assessing the effectiveness of the present Act and evaluating possible revisions in order to determine whether the present, or any, Industrial Design Act can promote the optimal level of industrial design.

1.2 Definitions Of Industrial Design

The term "industrial design" has two compatible but distinct types of economic definition. It can be an activity; it can be a product. We discuss each, how they interact, and how they provide a basis for our economic analysis. The legal definition, as used for the Industrial Design Act, is only concerned with the protected parts of the product-related economic definition.

Design As An Activity

Industrial design, as an activity, is one of several inputs into the production process. Broadly defined it encompasses part, but not all of the development activities in the research and development phases of industry. Its exact boundaries however are very difficult to define precisely.

All manufactured goods must have an industrial design component, since all have a shape and form. Whether or not there was extensive thought given to the ultimate result, there must have been some designing. However, the component of industrial design under consideration here is much more formal, encompassing generally those activities which seek explicitly to determine the form and appearance and other qualities of manufactured goods.

One definition of industrial design is:

> "Industrial design is a creative activity, the aim of which is to determine the formal qualities of objects produced by industry. The formal qualities include the external features, but are principally those structural and functional relationships which convert a system to a coherent unit, both from the point of view of the producer and of the user."[2]

Another definition holds that "design is the work and thought that goes into making products and processes better, where better means cheaper to make, safer to use, more aesthetically appealing, longer lasting, and so on".[3]

These definitions indicate that industrial design is concerned with the appearance, function, and manufacturability of an item. As a result, the design component (in terms of the effort put into the design of an object) can be very large or very small. It can also occur in any of several ways in relation to the rest of the inputs used in developing a product. Design can be a fundamental input throughout the larger process of development, or it can be an afterthought, added on in order to improve marketability simply by creating some additional (and often contrived) distinction between products. These could include differences in size, shape, and color. However, other design features aimed at improving marketability could include such attributes as shelf life, safety in use, ability to be displayed effectively, and compatibility with national and international standards. The industrial design function is therefore concerned directly or indirectly with a wide range of physical and functional product characteristics that bear heavily on the ultimate market success or failure of a product. Design can thus represent a crucial creative input into the process of developing a marketable product.

In other areas where significant creative input is used to develop a new or unique product, the rights of the product's originator in the outcome are protected by the intellectual property law. The rights of the author and the inventor in the fruits of their creative endeavour are protected by copyright and patents. The *Industrial Design Act* provides protection like that afforded in other areas of intellectual property. But just as the Act distinguishes between industrial designs and other forms of intellectual property, so will this study differentiate between different types of industrial designs in order to evaluate the welfare consequences of each type.

Good design is an important ingredient of many successful products. In many firms and for many products, design is an essential ingredient of the product development process, and designers are involved in it from the beginning. This is essential because many aspects of good design cannot be added on as visual improvements to a functionally complete object; they must be integral. Factors such as human engineering (ergonomics), safety, and manufacturability must be considered from the start of the development process. As the Chairman of the National Design Council noted:

> "Better design of products and processes will help to improve Canadian economic performance. For example, through design:
>
> - energy can be conserved;
> - materials can be better utilized;
> - productivity can be increased;
> - maintenance and servicing costs can be reduced;
> - the distribution of goods and the provision of services can be improved;
> - consumer needs can be more effectively satisfied.
>
> In short, better design will enhance the standard and quality of life at home, and Canada's capability to compete in foreign markets."[4].

One of the major tasks of this report will be to relate design of the kind described above -- that is, design as the industry understands it -- to the narrower concept of design embodied in the Industrial Design Act, and to search for policies that can be adopted to promote an increase in the kind of design mentioned by the Design Council. As our later analysis will show, it is difficult to formulate a legislative policy which will accomplish this goal.

Design As A Product

In constructing an economic model of design activity, it is useful to adopt an approach that considers the various characteristics of products. To both the economist and designer, every product serves a variety of uses and needs and meets a series of design criteria. In many ways, a product can be viewed as nothing more than the embodiment of these useful criteria (i.e. sources of utility).[5] Each one of many dimensions of a product has to be considered (either explicitly or implicitly) by the designer as part of the design activity. Sometimes, the resultant characteristics are clear and obvious to an observer, e.g. the optimum weight for a hand-held electric shaver. But other times, designed characteristics serve some special, generally non-obvious purpose such as guaranteeing a minimum product life. While the success of a final product often reflects the net impact of an array of design characteristics, almost none of the specific features contributing to the success of a product need necessarily affect the design's registrability under the current Industrial Design Act.

In fact, viewing a product as a collection of attributes or characteristics emphasizes the difference between the total of designed products and those that are registrable under the current Act. The "characteristics model" can distinguish between products with identical attributes but different intensities, as, for example, two otherwise identical breakfast cereals with differing concentrations of sugar. The characteristics model allows very similar products to be differentiated on the basis of a difference along any dimension. A designer or a user could easily distinguish between products, but under the Act only the shape and form can be registered.

The characteristics model assumes that consumers wish to consume some set of characteristics, not some set of products. The particular products they purchase and consume are simply means to obtain the desired characteristics. Since various products contain various characteristics in different combinations, consumers choose mixes appropriate for themselves. Only in special cases will a particular product contain characteristics in exactly the ideal mix for very many consumers.

The characteristics model has distinct advantages for the purpose of this study. Instead of focusing on the rather narrow coverage of the present Act, the characteristics model allows a more general analysis of the entire design process, focusing on its functional effect rather than on the form of its output. In terms of the characteristics model, the process of design is simply the selection of a particular mix of characteristics from an effectively infinite set of possible characteristics configurations. This is by no means a trivial task. Product development, a complex process, is entirely concerned with the definition and selection of the particular bundle of characteristics to be embodied in a particular product. Only products which have the same characteristics in the same quantities can be considered identical, and will be so considered by consumers. Most new products, then, like most existing ones, are unique.

1.3 The Issues

Stated in its broadest sense, the central policy issue is whether the current Industrial Design Act promotes the "public interest", appropriately defined. The intellectual property laws in general, including this Act, grant some limited monopoly power to the originator of a piece of intellectual property, with the intent of allowing that creator to exploit his property economically. The basic premise is that, without the increased income available from the exploitation made possible by the intellectual property laws, market processes left completely to themselves would produce less than "socially optimal" quantity (and possibly quality) of particular types of "intellectual" output. Intellectual property laws offer protection from the appropriation, without compensation, of the fruits of intellectual or creative activity; they are thereby intended to promote such creative activity. The laws involve a trade-off of higher, monopoly prices for the consumers or users of the intellectual output against the encouragement of a (socially more optimal) larger volume production of it.

In order to analyze the Act from this "social welfare" perspective, it is necessary to specify the components of public interest more clearly. The difficulties in identifying increases or decreases in social welfare are well known.[6] Nonetheless, since any public policy initiative can only be evaluated against specific criteria, we propose in Chapter 2, a specific "public interest" framework. This framework is also relevant for evaluating changes and qualifications to the Act.

This consideration of the Act remains aware of the basic trade-off involved in intellectual property protection: (1) the public benefit from the cheap and unrestricted dissemination of intellectual outputs against, and, (2) the rights of its creators to exploit their product and the need to promote the production of intellectual creations. Within the overall framework of this basic trade-off, several specific issues arise.

The rights granted by a statute for any type of intellectual property (including registered industrial designs) are tailored to the particular area of intellectual property law and for each separate jurisdiction. The rights are limited as to: eligible subject matter, the scope and exhaustion of the rights, the nature of penalties for infringement, and the term and considerations for exploitation. These features exist because most jurisdictions require that no such rights should be "total" and that only "enough" of each right, as necessary to protect and promote certain activities, should be granted. As a consequence, an important subset of issues relates to determining "How much is enough?" for those rights covering industrial design in Canada.

The subset of issues relating to the rights covered under the Act leads to a number of specific policy questions. One relates to the subject matter of protection. For example, should the Act embody a quality requirement or a provision for "goodness" of design and if so, how exacting should this requirement be? A related question is whether the legal definition of industrial design should maintain its emphasis on visual features to the exclusion of functional elements, or whether the elements of function should be explicitly protected under the Act. A second subset of issues relates to the scope and nature of protection received under the Act. For example, should protection be provided against any design reproductions or only against reproductions which are the result of actual copying of the registrant's design?[7] Should damage penalties under the Act be increased? Should the term(s) of protection be increased or reduced? A third subset of issues relates to the administration of the Act. For example, should the Act be merged with patent law or copyright law? Should eligibility for registration under the Act remain completely neutral to the national origin of the design and the designer? Should compulsory licences be a condition for the granting of registration protection? Should fees for registration and renewal be raised or lowered? Since many of these specific questions can be subsumed under the broader question of whether industrial design protection should be strengthened or weakened, not all of them are directly addressed in this study. Also, many of them raise basic issues of workability.

The evaluation of public policy initiatives must also recognize that different segments of society may not be affected identically by any given policy; in most cases, some people are benefited (or hurt) more than others. The fact that virtually all public policies are likely to make some individuals worse off, while making others better off, underlies the difficulty in drawing unambiguous conclusions about the welfare implications of given public policies. While in principle, there are no unarguable criteria for choosing among policies that are "Pareto efficient", in practice, evaluation of such policies proceeds by introducing (either implicitly or explicitly) distributive judgements.[8] Making distributive judgements (usually along income lines) requires the policy analyst to identify those segments of society likely to be substantively affected, either positively or negatively, by proposed policy changes.

Several segments of society will be potentially affected by changes to the Act. To the extent that the Act conditions the amount of design activity in the economy, changes to the Act could affect the welfare of consumers, particularly consumers of products characterized by a signicant design component. Changes to the Act may also substantially affect the welfare of producers. For example, changes to the Act could affect the competitive conditions in an industry, including the ways in which firms compete, thereby affecting industry profits. Relative changes in consumers' and producers' welfare constitute an important basis for evaluating alternative Pareto efficient positions, and underlie our analysis in this report. Of course, some individuals may be affected by public policies more in their roles as factors of production than as either consumers or producers. For example, industrial designers and design lawyers would presumably be affected by any substantial changes to the Act. Any significant increase or decrease in registration activity resulting from a change in the Act would also affect the examiners, administrators and support staff charged with the responsibility for handling the design registration function. In considering the distributional consequences of any changes to the Act, these individuals should not be ignored.

1.4 Overview Of The Study

This study has two main parts. First, there is an economic analysis which uses both economic theory and available evidence to produce a general evaluation of the Act. Second, there is a legal analysis of the Act which examines specific details of law and administration that must be considered if the Act is retained. Each Part has its own chapter with pages numbered separately.

The economic analysis starts in Chapter 2. It is based upon, a long established general theory known as "welfare analysis" the study of conditions under which social welfare (the benefits accruing to society as a whole) can be maximized. There we define the overall evaluation criterion of net social welfare, as measured by producers' and consumers' surplus. Chapter 2 also introduces the "characteristics model" of consumer demand which was sketched earlier in this chapter. Given this model, Chapter 2 then considers three dimensions along which net welfare considerations can be brought to the analysis of the Industrial Design Act:

(1) allocative efficiency,
(2) fairness, and
(3) distributive equity.

The chapter concludes that the major questions are in the area of allocative efficiency, and that a more clearly focused model is needed to analyze these questions. Such a model is introduced in Chapter 3.

The model that we have adopted concentrates on the question of the "optimal" amount of product differentiation, which is a question closely related to the amount of some kinds of design activity. The chapter concludes with a set of empirical questions which will relate to the practical evaluation of the Act. Chapter 4 then brings whatever empirical evidence is available to bear on the empirical questions outlined in Chapter 3.

Finally, Chapter 5 summarizes the economic arguments and considers a set of proposed policy changes, with recommendations on each one. The legal analysis is presented separately as Part II, Chapters 1 to 14.

1.5 Footnotes

[1] Economic Council of Canada, Report on Intellectual and Industrial Property, Ottawa: Information Canada, 1971.

[2] This is the definition offered by "Design Canada", a part of the Department of Industry, Trade, and Commerce.

[3] James Filditch and Douglas Scott, The Business Product Design, London: Business Publications Ltd., 1965.

[4] National Design Council, Annual Report 1975-76, p. 6.

[5] The definition of products as "bundles" of characteristics forms the basis of many recent models of consumer behaviour. In this regard, see Kelvin Lancaster, Consumer Demand: A New Approach, New York: Columbia University Press, 1971.

[6] See, for example, J.M.D. Little, A Critique of Welfare Economics, Oxford: Oxford University Press, 1959.

[7] In generalizing, the Act may be described as providing for protection to a considerable extent against any reproduction of the design, whether copies or independently produced, in circumstances where the design or similar design is produced for sale.

[8] A "Pareto efficient" position exists when no change in policy can make any members of society better off without making others worse off.

CHAPTER 2

POLICY CRITERIA

2.1 Introduction On Criteria

Our task is to evaluate potential changes to the Industrial Design Act, including its abolition. Because so many diverse interests are affected in so many different ways and to such varying degrees by the Act, we need to specify explicit social welfare criteria for this evaluation. ("Social welfare" is the economist's term for the aggregate net benefits accruing to the whole of a society.) Such criteria provide a set of standards against which the Act as a whole, as well as any specific modifications to it, can be evaluated. By choosing criteria that reflect overall social welfare effects, we are able to determine whether modifications of the existing legislation are likely to result in a net benefit to society. We are explicitly not concerned with measuring absolute levels of total social welfare under alternative legislative regimes. The chosen criteria merely provide a benchmark against which alternative policies can be judged as being more or less likely to improve social welfare. That is, we are concerned with likely direction of movement of the total, not its actual amount.

The resulting analysis will be somewhat theoretical, considering the questions of social welfare from a relatively abstract point of view. Such an approach has several advantages here. First, it allows us to adopt a framework that will accommodate all possible advantages and disadvantages of any policy change, so that the analysis of the effect on any particular group does not have to take place in isolation. Second, in the face of a severe lack of relevant empirical evidence, our theoretical analysis points out which empirical questions are most crucial so that available evidence can be focused on attempting to answer the central questions. Third, it allows us to use and build upon an extensive existing social welfare literature which is relevant to the issues in question here.

The analysis is undertaken in three broad areas:

(1) the allocative effects,
(2) the distributive effects, and
(3) the question of fairness.

Each will be considered in a separate section of this chapter.

2.2 Allocative Efficiency

General Considerations

Allocative efficiency concerns the optimal use of the resources available in order to achieve the maximum aggregate income. A set of conditions in output(product) and factor(input)markets can be described which theoretically guarantee that total output is maximized for any initial distribution of wealth.[1] However, a practical difficulty is that these conditions must be met in all markets in order to insure income optimality. If, for any reasons, the stringent conditions are not met in any market, there are no general rules which then guarantee optimality.[2] Common deviations from the conditions are the existence of non-competitive price and output determination and differences between social and private valuations. These make it very unlikely that the optimum conditions are met in all markets. If the optimal conditions were met in all but one market, then it is clear that forcing competitive behaviour (that is, forcing the remaining market to meet the conditions) would produce the optimal allocation. However, where the conditions are not met in several markets, it cannot be assumed that a movement to competitive output and pricing in one of them will, perforce, produce an improvement in overall allocative efficiency. In short, it is invalid to assume that a policy which moves one sector of the economy closer to a competitive output solution necessarily improves aggregate allocative efficiency.

An additional complication in performing welfare analysis is introduced by the fact that different output positions are not strictly comparable if they are associated with different wealth distributions in society. That is, even when a policy is implemented that results in an unambiguous increase in total (i.e. economy-wide) output and leaves everyone better off, or at least no worse off, than they were before, the improvement in welfare is unambiguous only for the distribution of wealth extant when the policy is implemented. If value judgements about the distribution of wealth are allowed to enter the analysis, it is possible that a policy change which increased everyone's income would not represent an unambiguous improvement in social welfare because the distribution of wealth extant prior to the change was not socially acceptable.[3]

It has been widely recognized that a strict application of these stringent theoretical limitations would severely restrict the usefulness of most policy analysis exercises, since identification of unambiguous improvements in allocative efficiency would be virtually impossible. It is also recognized, however, that policy initiatives taken in strict ignorance of their allocative impacts may be quite damaging to the social interest. Thus, the strict criteria for defining improvements in social welfare are generally relaxed, allowing comparisons of what have been labelled "lower-level" optima.[4]

Comparisons of lower-level optima involve several facilitating assumptions. One is that policies affecting prices and output in one sector of the economy have, at most, marginal impacts on costs and prices in other sectors. Another is that policy changes which allow for everyone to be made better off through a re-distribution of resulting gains represent potential improvements, whether or not such redistributions actually take place. In effect, allocative and distributive considerations are treated as being weakly separable, in that one does not ordinarily test whether the payment needed to compensate individuals made worse off by any given policy is sensitive to the initial distribution of wealth prior to the policy. This is not to say that a policy's impact on the distribution of income is irrelevant. Rather, the policy analyst ordinarily accepts the existing distribution of social wealth and evaluates both: (1) whether a proposed policy will make this distribution more or less equal, and, (2) whether it will increase overall income.

Policies likely both to increase aggregate income and to produce a more equal distribution are preferable, *ceteris paribus*, to policies promising the same income increases but a less equal distribution of the resulting income.

The "Surplus" Concept

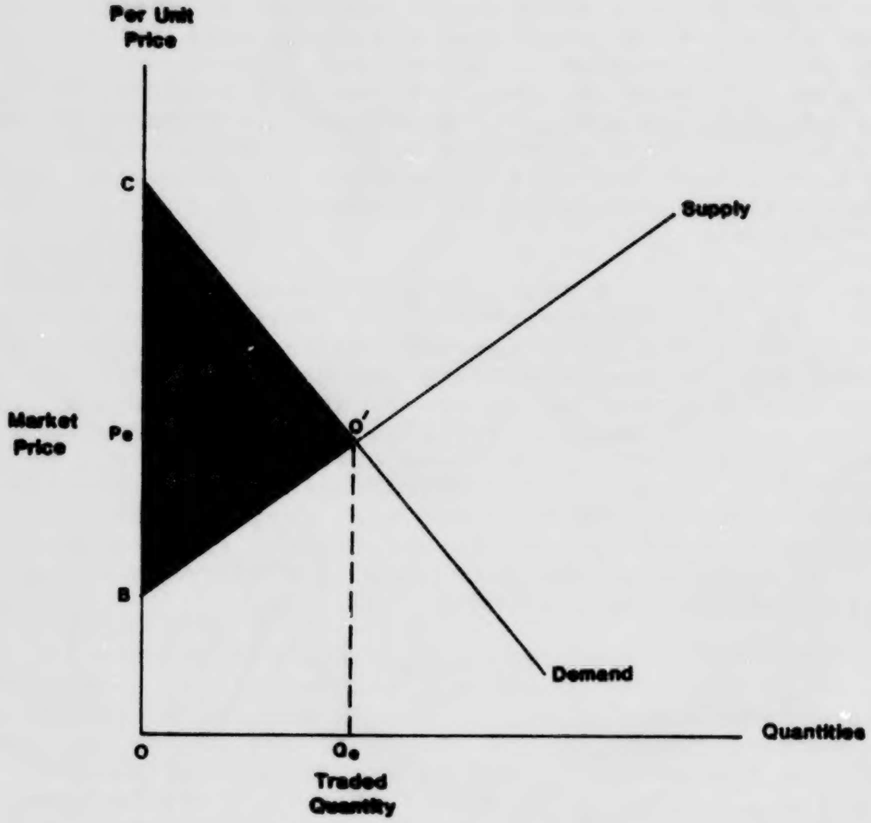
The discussion so far has focused on the total of monetary income, which relates to the total of goods and services available in the economy. However, while potential increases or decreases in monetary income are a relevant measure of allocative efficiency, they do not measure an individual's total well-being. Total well-being is considered in the economic concept of total "utility", or the consumer's total psychic income in terms of his (or her) own satisfaction obtained through consumption of goods and services. In this regard, it is relevant to note that a person may derive satisfaction from such reservation uses of his (or her) resources as the leisure use of time instead of maximizing market income. Another consideration is that an individual's well-being will be related to the exact mix of consumption goods he (or she) buys. It is reasonable to assume, all other things constant, that consumers in general are better off with greater choice. This consideration is particularly relevant to the analysis here of possible changes to the Industrial Design Act, since it is presumed that one outcome of encouraging greater industrial design effort is an increase in the variety of products available. A further difference between measured monetary income and total utility is that there can be changes in the quality of goods and services produced. This consideration is also potentially relevant when evaluating the Act since the increased design effort could produce goods that are "better" in some meaningful sense.

One implication of these considerations is that strictly income-based measures of allocative efficiency may be too narrow for purposes of policy analysis. Indeed, most welfare analyses of public policy initiatives rely on the concepts of "consumer surplus" and "producer" surplus to evaluate the allocative implications of a specific policy. While these concepts are, in principle, straightforward, they are, in practice, difficult to measure.

Diagram 2-1 illustrates and explains the concepts of consumer and producer surplus. The supply and demand curves for a good surplus are given as **S** and **D** respectively. The equilibrium output rate and price (Oq_e and OP_e respectively) are determined by the intersection of **S** and **D**. Consumers' surplus is defined as the difference between what consumers would be willing to pay for each quantity purchased and the price charged by the market when aggregated over total quantity purchased. It can be measured in Diagram 2-1 as the triangle $CO'p_e$. Producers' surplus is defined as the difference between the minimum price a producer would be willing to accept at each quantity supplied and the price the market offers him when aggregated over total quantity sold. It is shown in Diagram 2-1 as triangle $BO'p_e$. The algebraic sum of total surplus, i.e. consumers' surplus producers' surplus, or triangle BCO' is a conventional index of allocative efficiency in policy analysis.[5]

Several qualifications to the surplus concepts should be identified. One is that the exposition of the concepts in Diagram 2-1 does not allow for changes in the nature or characteristics of the output produced. That is, output units measured along the horizontal axis are presumed to be homogeneous. However, as noted above, changes in the characteristics (both visual and operational) of products are an integral feature of the marketing activities of firms and represent the principal output of design activity. For our purposes, then, we must incorporate product variety as a component of social welfare; that is, as a contributor to aggregate surplus.

Diagram 2-1 - EXPOSITION OF CONVENTIONAL CONSUMER AND PRODUCER SURPLUS


Per Unit
Price
C
Supply
Market
Price
Pe
O'
B
Demand
O
Qe
Quantities
Traded
Quantity

"CONSUMER SURPLUS":

A consumer receives a "surplus" when he can buy a given amount of product at a lower price in the market than the maximum he would be willing to pay. Adding this difference for all consumers measures aggregate consumer surplus, i.e. area CP_eO'.

"PRODUCER SURPLUS":

A producer recieves a "surplus" when he can sell a given amount of product for more than the lowest price he would be willing to accept. Adding this difference for all Producers measures aggregate producer surplus, i.e., area BP_eO'.

Product Characteristics

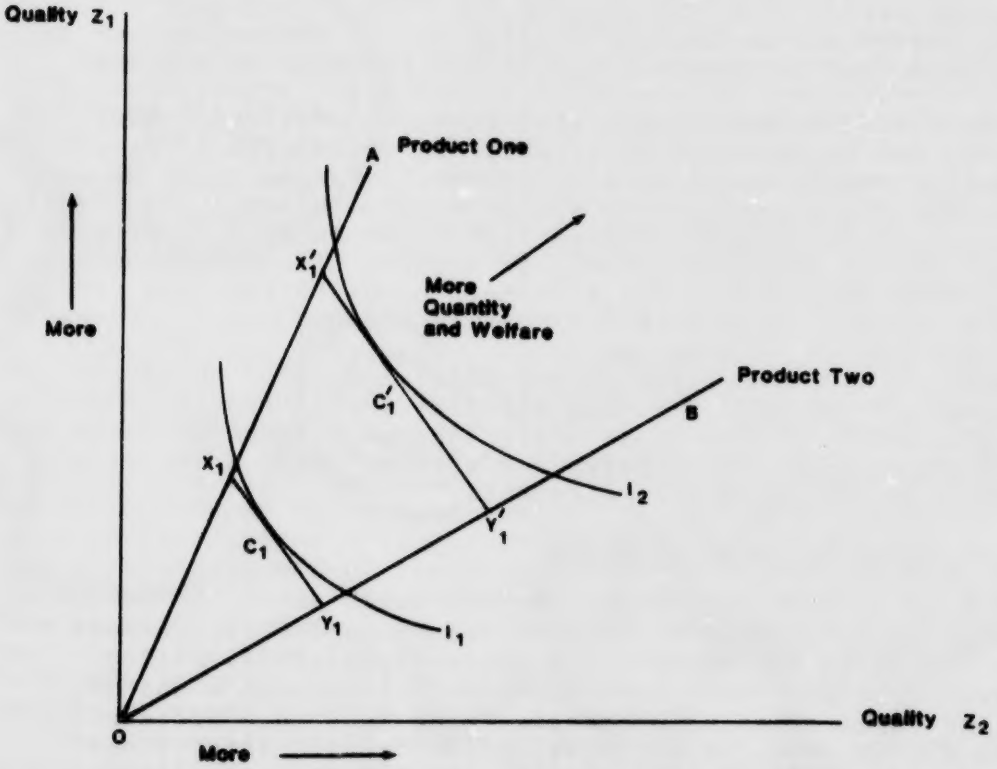
An approach to demand analysis that incorporates product features is outlined in Diagram 2-2.[6] In this approach, goods are defined in terms of their attributes or characteristics. For example, if the good in question is an automobile, characteristics might include fuel efficiency, seating capacity, number of doors, and others. While, in actual practice, the enjoyment or use of a good depends on a variety of characteristics, for expository purposes we will present a model which considers only two characteristics. Adding more dimensions would introduce un- necessary complexity without changing the substance of the analysis or its conclusions.

Diagram 2-2 presents a two-characteristics model of consumer choice. The two characteristics are called Z_1 and Z_2 and positions along the axes represent different amounts of them. The model assumes that consumers can describe different combinations of characteristics, Z_1 and Z_2 that would leave him (or her) equally satisfied. In other words, a consumer can define "indifference curves" in the z_1, z_2 characteristics space. Both characteristics are considered desirable; that is, the consumer will prefer a combination which gives more of one characteristic and no less of the other. In Diagram 2-2, points along indifference curve I_2 are preferred to points along I_1.

The indifference curves depicted in Diagram 2-2 are for a single representative consumer. In general, we assume that there are many indifference curves in the characteristics space, each representing the unique tastes of one consumer. In fact, we assume that there is a continuum of tastes distributed throughout the space; that is, indifference curves for at least some consumers pass through each point, so there are no points (products) that no consumers want. Therefore, any particular set of characteristics represents the ideal product for at least some consumers, given technical trade-offs, prices and incomes.

Products provide the consumer with the two characteristics in fixed proportions. Such products allow the consumer to obtain the two characteristics in those proportions at any intensity he chooses by purchasing enough of the products. One such products is described by the ray OA in Diagram 2-2. Point x_1 represents a unit level of consumption of a good which provides characteristics z_1 and z_2 in the ratio given by the slope of OA. The product is completely described for consumption considerations by the characteristics ratio given by the slope of OA. Its production possibilities can be implicitly indicated by the position

DIAGRAM 2-2 - THE "CHARACTERISTICS" APPROACH TO CONSUMER WELFARE


Quality Z_1
More
A
Product One
X_1'
More
Quantity
and Welfare
C_1'
Product Two
B
X_1
I_2
Y_1'
C_1
Y_1
I_1
O
More
Quality Z_2

of x_1; the more costly it is to produce x_1 the closer x_1 will be to the origin. A second product is described by the ray OB, and the slope of this ray is interpreted like that of OA; that is, the slope gives the proportions in which z_1 and z_2 are provided for different consumption levels of the second good. Point y_1 would therefore represent a unit level of consumption of the second good. If it is technically possible to consume linear combinations of the two goods, points along the line connecting x_1 and y_1, would represent unit-level combinations of goods One and Two. If our representative consumer has sufficient income to buy one unit of good One or good Two, or a linear combination of the two goods given by line x_1, y_1, he or she would choose the combination at point C_1, producing the level of utility shown by indifference curve I_1. This result is somewhat analogous to the standard geometric solution for consumer equilibrium when the axes are defined in terms of goods rather than characteristics. With this basic introduction, we can use Diagram 2-2 to illustrate how design changes can influence consumer satisfaction or welfare.

There are two basic ways that design changes can occur, and they are represented differently in the diagram. First, a design change could make it cheaper to produce one or both of the goods represented by the rays in Diagram 2-2. This could happen either because it becomes cheaper to produce one of the characteristics, or because of some change that affects productions costs of both goods in the same proportion. Second, a design change could result in the introduction of some new goods. Chapter 3 will contain a more extended analysis of the implications of these two types of change. The discussion here will center on an explanation of how these design changes can be expected to increase consumer welfare, and whether they can be clearly seen as unambiguous improvements.

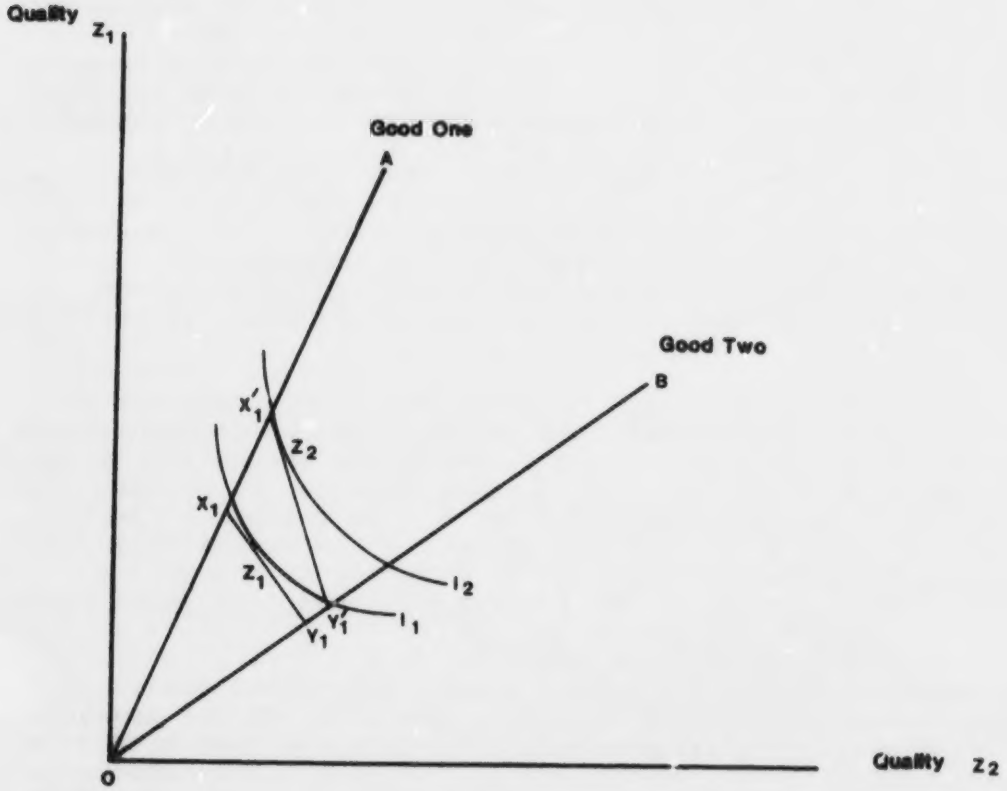
(a) Case 1: Cheaper Goods

The first kind of change, the one which makes one or both goods cheaper to produce, can occur either through a change in the equipment supplier industries, making available more efficient machines, or through a change that makes existing productive processes more efficient. In either case, we can distinguish between changes that are neutral in their impact on the two characteristics and those which favour one or the other. If the change is neutral, then the unit levels of both good One and good Two will shift out along the rays by an equal proportion. In that case, the line of x_1, y_1 will shift outward parallel to itself, and the consumer will be able to reach a higher indifference curve and be clearly better off than before.[7] This will be true for all consumers in this space regardless of the shapes of their indifference curves. A neutral innovation, then, produces an unambiguous increase in the well-being of consumers. This conclusion holds even if consumers are not able to combine the two goods. The increased availability of both characteristics will make all consumers better off, so that the increase in total consumer welfare is unambiguous.

A non-neutral change will also produce an unambiguous increase in social welfare if the two goods can be combined. Then the line x_1, y_1 would shift out in a non-parallel fashion. For "reasonably behaved" indifference curves, all consumers would still be able to reach a higher level of satisfaction. This case is illustrated in Diagram 2-3. The design change shown has the effect of increasing the amount of characteristic z1 produced with given resources.[8] Once again, presuming that cost savings are fully passed on, the consumer can reach a higher satisfaction level for the same expenditure. This result holds for any well-behaved set of tastes for which both z_1 and z_2 are desirable attributes. The line representing unit combinations shifts from x_1 y_1 to x'_1 y'_1, but it clearly allows the consumer to reach a higher valued indifference curve. Because the shift of the line is not parallel, the consumer will probably, change the proportion of the two goods in the U optimal combination, but he (or she) would still be better off, with an increase in total surplus.

On the other hand, if the two goods cannot be combined in consumption, then it is possible that the design change will not be unambiguously positive. Where the change simply makes either or both of the existing goods cheaper to produce, the conclusion still holds. However, if the change is one that makes it cheaper to produce one of the characteristics, then cost considerations will induce producers to change the characteristics mix of the products offered. In other words, since a good is defined by its characteristic ratio, at least one existing good will be replaced by another. Then those consumers for whom the existing good represents their ideal consumption ratio could be made worse off. If the design change produces a large enough cost decrease that such consumers could still, by consuming more of the new, cheaper good, maintain the same consumption level of their desired characteristics, even though the good does not provide them in the ideal proportions, then they will be better off.[9] However, the new good may not be sufficiently cheaper to allow all consumers to regain their previous positions and some consumers could be worse off. Of course, many consumers will be better off, but we cannot unambiguously say that

Diagram 2-3 - THE IMPACT OF "NON-NEUTRAL" DESIGN CHANGES


Quality Z_1
Good One
A
Good Two
B
X_1'
Z_2
X_1
Z_1
I_2
Y_1'
I_1
Y_1
O
Quality Z_2

there has been an increase in total welfare. The question of the welfare effects of these various kinds of innovation will be treated more thoroughly in Chapter 3.

(b) Case 2: New Goods

The second kind of design change is that which leads to the introduction of an entirely new product without displacing any of the existing products. For this analysis, we assume (realistically) that consumers cannot combine goods One and Two to produce alternative combinations of the characteristics z_1 and z_2. Referring to Diagram 2-2 again, we can see that the consumers' ideal product, given the trade-offs represented by the line $x_1 y_1$ and the indifference curve I_1, would be one passing through the point C Therefore, a design change which allowed the consumption of characteristics z_1 and z_2 in the ratio given by the slope of a ray drawn from the origin through C_1 would make at least some consumers better off. Clearly, since preferences are dense in the space, the more such new products are facilitated by design changes, the better off consumers are, as each new product comes closer to the ideal for some group of consumers. However, the increase in consumer welfare decreases as the number of existing products becomes greater, because more and more consumers are either at their ideal product already or are closer to it than the new product can get them.

Relationship to Producer Surplus?

The preceeding analysis demonstrates how changes in consumer surplus are conceptually related to industrial design activity. We will elaborate upon this analysis further in Chapter 3. As noted above, however, welfare changes are the sum of changes in both consumers' and producers' surplus. It is necessary, therefore, to link potential changes in producers' surplus to industrial design activity. Unfortunately, this is a somewhat complex task as it involves potential changes in the distribution of profits among producers as well as possible shifts in realized surpluses between consumers and producers. To some extent, we need not undertake this analysis in cases where design changes facilitate the provision of one or more characteristic with no necessary reduction in any other(s). That is, in such cases, society's capacity to satisfy consumer wants unambiguously increases and, while realistically all of the cost savings may not be (as we assumed) passed on to consumers, the changes represent an increase in total surplus, since either consumers' surplus, producers' profits or both will increase. The distribution of this increase between producers and consumers may be relevant for a number of reasons. One is that the implications for society's overall distrubution of income may differ depending upon distrubution of the increased surplus. More specifically, if the increased surplus is primarily realized by a small number of producers, inequalities in the overall distrubution of income could be accentuated. This general concern is treated more fully in section 2.4

Another consideration is that many producers in Canada are subsidiaries of foreign-owned companies. To the extent that increases in producers' surplus (i.e. profits) earned by these subsidiaries are repatriated to their parent companies located outside of Canada, the increases should probably be excluded from estimated welfare gains for the Canadian economy. Indeed, it is arguable whether to include profits earned by foreign subsidiaries in overall economic surplus even if subsidiary profits were fully retained in Canada. It is clear, however, that the profits earned by foreign firms on exports to Canada should not be included in measures of domestic surplus. As a practical matter, it is probably unnecessary for us to draw any analytical distinction between foreign and domestically owned producers. As will be argued more fully in Chapter 4, foreign subsidiaries in Canada largely adopt industrial designs developed by parent companies. In turn, it is extremely unlikely that the design activities of the parent companies are influenced in any significant way by the existence of legal design protection in Canada. Therefore we will not be explicitly concerned with the variety of factors that influence the distrubution of increased surplus between producers and consumers of designed products.

We must note, however, that when a design change alters the attainable proportion of characteristics obtainable from a set of products, the potential impact on producers' surplus and on overall surplus is much more complex, and a more detailed model is required for its analysis. The description of this model is left for Chapter 3.

Miscellaneous Efficiency Considerations

Our recommended index of allocative efficiency (the sum of producers' plus consumers' surplus) has the disadvantage of being extremely difficult to measure. Other possible indices of welfare that are sometimes referenced in the policy analysis literature have the virtue of being more easily measurable. Some examples of these indices include improved balance-of-payments, increased employment and increased domestic R&D expenditures. While readily measurable, these indices are imperfect proxies for allocative efficiency in several important respects. First, they are more correctly considered means to an end rather than economic ends in themselves. For example, while some supporters of "technological sovereignty" would argue that conducting a greater amount of indigenous R&D of itself promotes the national interest, a more conventional view is that R&D is valued only for its economic growth and productivity effects. As another example, while increased employment may alleviate some of the psychological suffering associated with unemployment, the primary welfare impact of increased employment is again increased real output as reflected in increased total surplus (i.e. consumers' plus producers' surplus).

It is also questionable whether using a broad macroeconomic aggregate (such as total employment) as an efficiency criterion makes sense when evaluating such specific microeconomic policies as changing the Industrial Design Act. Broad macroeconomic objectives are more readily attained through such macroeconomic tools as monetary and fiscal policy. A more sector-specific measure of allocative impact seems required when evaluating the effects of relatively focused policy changes in specific markets. The measure traditionally employed in this context is the surplus concept identified above.

2.3 Fairness

Intellectual property right protection is often defended on grounds of "fairness", or on grounds that creators have a "natural property right" in their own ideas. Appropriation of one's ideas by others without compensation is tantamount to stealing and, therefore, society is morally obligated to protect this property right. The fairness notion has also been invoked to justify other forms of intellectual property protection including patents and copyright.

Economists generally have very little to say about fairness as a social goal. Most economists adopt the view that, all other things the same, public policies should strive for "horizontal equity"; that is, individuals in like conditions should receive like treatment. We must therefore consider whether a legal property right in industrial design is justified on the basis of horizontal equity. On the surface, it would appear to be a relevant justification since other creators such as inventors can potentially receive protection under the Patent Act, while recorded performances are copyrignt against unlawful duplication, etc.

One factor mitigating the fairness argument is the fact that industrial design activities may already receive a measure of indirect, and additional, protection under the Patent Act and the Copyright Act.[10] The subject of design activities presumably eligible for protection under the current Act encompasses activity intended primarily to achieve an aesthetic purpose, although it may also serve an operational purpose, and which is used (or intended to be used) as a model to be multiplied by an industrial process. Thus, the existing Act fills an uneasy gap between design activity that is embodied in innovations eligible for protection under the Patent Act and design activity that is incorporated in artistic works eligible for protection under the Copyright Act. Thus, one can argue, with some merit, that most industrial designers would enjoy a significant measure of protection in the complete absence of the current Industrial Design Act or an equivalent piece of legislation.[11]

Another consideration mitigating (to some degree) the relevance of a fairness argument, is that fact that industrial design uses the expertise and knowledge of a variety of disciplines including engineers, scientists, psychologists, marketing and advertising specialists. Given that industrial design activity reflects the output of a potentially diverse set of complementary inputs, it is unclear why providers of one input (designers) are more validly entitled to property right protection than other inputs. By extension of the fairness argument, the economic, psychological and marketing expertise that influenced the nature of a design, should also be protected by intellectual property laws. And by further extension, it seems consistent to argue that the output of all forms of human capital should receive exclusive property right protection under a fairness doctrine.

It is obvious that it is not possible in practice to pursue the fairness concept without meeting some inconsistency. Society must make some trade-offs between horizontal equity and the costs of managing the legal and judicial infrastructure. The decision as to the point when unfairness to a given group warrants imposing increased transactions costs on the rest of society is ultimately political in nature. One need not subscribe to the view that the appropriation of the ideas of designers (or any other creative group) constitutes sufficient unfairness. Even if one did, it is not obvious to us that absent the Act (or equivalent protection) industrial designers would have a compelling claim that they are being treated unfairly.

2.4 Distribution of Income

We noted earlier in this chapter, that public policy analysts (as a practical matter) ordinarily separate allocative and distributive welfare criteria, although the distributive effect of policies remains an important consideration. Thus, policies which "improve" the distribution of income are preferred to those which do not, *ceteris paribus*.

The separation of these two criteria is dictated by the pragmatic consideration that unambiguous comparisons of alternative allocative solutions are impossible unless the existing distribution of income is taken as given. Notwithstanding this separation, a policy which improved allocative effeciency (i.e. increased overall surplus) but substantially worsened the distribution of income (i.e. made it substantially less equal) would probably not be considered a welfare improvement unless the increased surplus were somehow re-distributed so that a more equal sharing of the resulting benefits was effected. On the other hand, a policy which resulted in no significant change in aggregate income but accomplished a redistribution of income from high to low income groups, would (given an egalitarian ethic) be considered a welfare improvement, other things constant.

The Act, or some other form of industrial design protection, might therefore be considered a welfare-improving public policy if it made a substantial contribution toward improving the distribution of income holding allocative considerations constant. Evaluating the distributive effects of any specific policy is ordinarily complicated by the fact that the incidence (i.e. the distribution of benefits and costs) of a policy is difficult to identify. In the case of a policy intended to promote industrial design activity (ostensibly the purpose of the Act), the potential beneficiaries include individuals providing inputs to the design activity, employers of those inputs and consumers of designed products. On the other hand, potential costs may be imposed upon certain consumer groups, and the general taxpayer to the extent that administration costs are not fully shifted to consumers of designed products.

The precise distribution of the possible net benefits will depend on supply and demand conditions in the relevant input factor and output markets. A comprehensive evaluation of the distributive implications of a specific industrial design policy would therefore require identification of those individuals benefitted and those harmed by the policy. This formidable task is beyond the scope of any current investigation; however, it seems reasonable to assume, as a first approximation, that industrial designers and industrial design firms would likely be major beneficiaries of increased industrial design protection, although over time some of the benefits may be passed on to producers who use design services and consumers of designed products.[12]

Increasing the incomes of designers could be a social goal if the public felt that designers are generally worthy people who tend to be underpaid. Many public policies intend to accomplish such income transfers either directly (e.g. social assistance payments or unemployment compensation) or indirectly (e.g. agricultural produce marketing boards). Because the benefitted group(s) tends to be a specialized one, the arguments in favour of improving their status must be very strong to justify creating a monopoly property right solely, or primarily, for the purpose of raising their income. Justification of this position requires demonstrating not only that designers as a group are poorly paid, but also that industrial design protection is an efficient way to transfer income to designers.

Evaluation of industrial design protection using these distributive criteria is relatively straight-forward. To the extent that the Act (or other potential vehicles of industrial design protection) increases the incomes of designers, it does little to improve the overall distribution of income. Specifically, a very small number of individuals make their living as industrial designers, and these individuals generally earn incomes well above the average for the working population. For example, there are about 65 free-lance professional industrial design firms in Canada. Including free-lance and company-employed designers, the number of industrial designers in Canada can be estimated at between 2,000 and 3,000.[13] While the average income of all industrial designers is not known, the average salary level of working partners and paid employees in industrial design firms was around $16,000 in 1977. By comparison, the average income of all employed workers in Canada in 1977 was $12,200. Thus, employed designers have incomes above average for the working population. Policies promoting the incomes of designers are therefore unlikely to improve (i.e. equalize) significantly the overall distribution of income in Canada.

If some of the benefits of industrial design protection are ultimately passed through to employers of industrial designers and consumers of designed products, the distributional evaluation is complicated somewhat. Without precise income estimates for other long-run beneficiaries of design protection, it is impossible to determine the distributional effects of alternative policies in any definite way. For all pratical purposes, it is impossible to obtain such estimates; however, it is plausible to assume that equity owners of firms employing industrial designers, as well as consumers of highly designed products such as jewellery, furniture and automobiles, also have above average incomes. Moreover, even if they did not, "targeting" income subsidies on the basis of the intensity of consumption of designed products is bound to be a very inefficient way to redistribute income. In conclusion, there is no apparent distributive argument on which to base a case for industrial design protection.

2.5 Summary

Three welfare criteria for evaluating public policy initiatives were identified and discussed in this chapter: allocative efficiency, fairness, and equity in the distribution of income. A framework for evaluating whether increased industrial design would improve allocative efficiency was presented and some key theoretical and empirical considerations were introduced. These considerations will be elaborated in the following chapter. Evaluation of arguments for industrial design protection based on notions of fairness or an improved distribution of income do not appear very pursuasive or appropriate to us. Hence, we conclude that justification for specific forms of industrial design protection can only rest on anticipated increases in the sum of producers' plus consumers' surplus.

2.6 Footnotes

[1] An exposition of these conditions is provided in several economics books, for example Jack Hirshleifer, Price Theory and Applications, Englewood Cliffs: Prentice-Hall Inc., 1975.

[2] The considerations which must then be invoked are treated under the general theory of "second best", which shows that the adjustments necessary to insure optimality depend on the particular circumstances of the departure from the optimal conditions. The seminal article in this literature is R.G. Lipsey and K. Lancaster, "The General Theory of Second Best", Review of Economic Studies, vol. 24, 1956, pp. 11-32.

[3] For example, society may have been characterized by an "excessive" amount of poverty.

[4] This term is used in E.J. Mishan, Welfare Economics, New York: Random House, 1964, p. 121.

[5] The functions in Diagram 2-1 are, for convenience, drawn as straight lines with explicit intercept terms. They are also assumed to be aggregate functions, showing the effect of all consumers and producers, so they may be taken as market functions.

[6] For a full description of this model, see Kelvin Lancaster, "A New Approach to Consumer Theory", Journal of Political Economy, vol. 74, April 1966, pp. 132-57.

[7] This outward shift presumes that the cost savings are fully passed on to consumers. This assumption is made to simplify the analysis; even if it is not met, the basic conclusions hold. We also presume no innovations are introduced that are not cost saving.

[8] Assuming that excess amounts of the other characteristic can be ignored or otherwise disposed of costlessly.

[9] Since good One is a relatively intensive provider of characteristic Z_1, its unit outlay point shifts out along OA further than good Two's does along ray OB, as Diagram 2-3 indicates.

[10] This indirect protection is described in Chapter 2 of Part II of this report.

[11] The legal grounds for statement are discussed in detail in Chapter 2 of Part II.

[12] The basic argument here rests on the notion that increased industrial design protection raises the return to design activity. This in turn increases the demand for designers' services. Presuming that the supply of designers' services is relatively inelastic in the short-run, most if not all of the higher returns to design activity will be bid into payments for designs. Over time, as designer supply increases, some of the returns may be transferred back to direct and indirect users of designers' services.

[13] See Statistics Canada, Special Report, Industrial, Interior and Graphic Designers in Canada, 1977 Ottawa, 1979.

CHAPTER 3

THEORETICAL EVALUATION OF ALLOCATIVE EFFICIENCY

3.1 Introduction

The previous chapter established that, of the three social welfare criteria against which a policy action can be judged, the Industrial Design Act is most likely to be effective in promoting allocative efficiency in the economy. The purpose of this chapter is to explore more fully the allocative questions raised by the probable effect of the Act. The analysis centers on the issue of the optimal level of product differentiation in an economy and allocative efficiency.

For the purpose of this chapter, we will accept that the intent of the Act, and its effect, is to increase the amount of design activity undertaken in Canada. The next chapter will consider the available evidence on the question of whether the Act as presently established, or as it might be revised, will in fact have a significant positive impact on the amount of design activity.

3.2 Design Activity and Product Innovation

Introduction

The usual result of design activity is either a new product (i.e. new package of characteristics) or a cheaper way to make an old product. In the simple model of the previous chapter, the problem of the product designer is both to choose a particular combination of the two characteristics available and to ensure that the product can be produced efficiently. A successful design will be one which is better than existing products at providing a desirable mix of product characteristics for many people; an unsuccessful design in one which satisfies the specifications of few people or is too costly to produce. The process of design, then, is conceptually quite simple. However, the number of possible designs is, theoretically, infinite because the theoretical number of possible characteristics ratios is infinite. In practical cases, the designer must choose particular amounts of each of a large number of characteristicstics. In choosing these product characteristics, the designer must consider all the factors of engineering, producibility, ergonomics, aesthetics, safety in production and use, and others, as mentioned in Chapter 1. Ultimately, then, the designer's task is a quite complex one.

The results of design activity, and their evaluation in terms of social welfare effects, are also complex. Section 1 of Chapter 2 described two kinds of possible innovations: those which conserve resources (resouce-saving), and those which result in a new product by combining resources in a new way, without necessarily any saving in resources. Even without reference to the costs of achieving the innovation, their effects in terms of consumer welfare are not unambiguous. A resource-saving innovation could be negative from some consumers' points of view if the innovation favours one characteristic over others so much that the product is totally redesigned; that is, an existing product is replaced by one with a different ratio of characteristics. However, resource-saving innnovations clearly benefit consumers if they simply make existing goods cheaper to produce, and if the cost savings are passed on. Innovations which make new products available also benefit at least some consumers by providing products closer to their ideal than existing products.

Two Types of Innovation

These kinds of innovation have been characterized in the economic literature as "vertical" and "horizontal."[1] Vertical innovations are resource-saving; that is, they allow the performance of some task, or the satisfaction of some consumer wants, at lower resource cost than was possible previously. As noted already while it is tempting to label vertical innovations as unambiguously good, it is not possible to do so, because, in the case where vertical innovations are combined with differentiation-type innovations, the net effect on the consumer could be negative.

On the other hand, one might be tempted to label horizontal innovations, as "bad". Horizontal innovations result in greater product diversity, not in lower costs of producing any good. The more horizontal innovation, the more fragmented and specialized the market becomes. This kind of product proliferation is sometimes attacked as excessive. However, as Chapter 2's analysis showed, there is no sound analytical basis for rejecting horizontal product innovations *per se*; in fact they always increase consumer welfare by giving some consumers new products they like.

Under the current *Industrial Design Act*, those design features that can receive protection are visual. Innovations which affect the operation of the product are not eligible for design protection, though they may be able to get patent protection. In relating the discussion of vertical and horizontal innovation to the Act, it would be tempting to classify horizontal innovations as registrable and vertical innovations with as generally non-registrable. However, this classification would be erroneous.

Visual or aesthetic innovations which all consumers find more pleasing than previous designs will, if they do not increase production cost, be horizontal innovations. Objects do not have functions in themselves, according to the characteristics model of consumer preference. Rather, they have usefulness to consumers insofar as they allow the consumers to consume their characteristics or features in proportions at or close to those which the consumers prefer, given prices, incomes and preferences. In other words, every object's function is to satisfy consumer preferences. If one object satisfies preferences by performing a specific task efficiently, at the same time as another satisfies preferences forming a task inefficiently while being visually attractive, how can an outside observer determine which object is the more useful? Clearly, both have value for the consumers; if they did not, no consumer would purchase them.

Purely visual or aesthetic innovations may also be vertical. This could occur if, for example, the new design is cheaper to produce than the old, or if the new design is preferred by all consumers on aesthetic grounds. This latter possibility is remote because consumers probably have very different tastes. For example, a newly-designed kitchen appliance might have no greater production costs than previous appliances of a similar nature, might perform in exactly the same manner, and be aesthetically more pleasing to almost all consumers. That new design could be considered a vertical innovation because it conserves resources, but it is not unambiguously positive. It is possible that for some consumers the aesthetic and visual qualities of the old kitchen appliance held more appeal. Since such consumers prefer the old design, its replacement by the new one could reduce their welfare.[2] For example, the introduction of the streamlined car may have reduced the satisfaction of consumers who preferred to ride in boxier-looking vehicles.

Since the distiction between changes affecting physical function and changes affecting aesthetics is a useful one in evaluating proposed changes in the Act, we have adopted the convention that changes in physical function will be called operational, while changes in aesthetics will be called visual.

However, we believe that most visual innovations will be of the product differentiation kind, with no resource-saving elements. Thus, although the identification in either direction cannot be complete, we can generally associate innovations that are registrable under the current Industrial Design Act with horizontal innovations, and we can generally associate vertical innovations with those that are not registrable under the current Act. Then, in discussing horizontal and vertical innovations, we can readily categorize some kinds of innovation. For example, innovations in producers' goods, which will be almost exclusively operational, will generally be vertical; profit-maximizing producers would only adopt innovations which will increase productivity.

A related problem with the characteristics model, and with any discussion of "good" versus "bad" design, is that aesthetics are completely subjective. What is execrable taste to one consumer is an example of exquisite craftsmanship to another; what is boringly plain to one consumer is a design of clean simplicity to another. As a result, we cannot say unambiguously (except for ourselves) that any redesigned product is more aesthetically appealing than the one it replaces. Undoubtedly, for some consumers the original held more appeal. However, for our analysis to proceed, we need only assume that those who find one kind of design appealing will be attracted to similar designs, rather than switching from hopelessly ornate to extremely simple, according to whether the objects presented meet their ideal specifications exactly or not.

It would perhaps be informative at this point to discuss some additional concrete examples of the two types of innovation. An example of a visual innovation would be the introduction of a new colour to an existing line of objects. This kind of new product clearly does satisfy some consumers' tastes more closely than existing products, assuming that consumer tastes are evenly distributed across the colour spectrum. Such a change also generally would not affect the operation of the object.

An example of a vertical product innovation is the introduction of the electric home food processor. This product could perform the tasks of several more specialized kitchen appliances, at a total cost somewhat below that for the total of each of the previous goods. It can also perform some tasks which had previously not been possible with a home appliance. Therefore, the food processor clearly makes some consumers (those who do such kitchen tasks and who buy or would buy a food processor) better off while making no consumers worse off.

It may also be worth noting that the food processor idea itself should not be easily patentable, since it represents only the combination of existing elements into a new design of machine. Whatever patent protection was available to the first manufacturer was due to some peripheral technical innovations, such as the particular method of mounting the blades. The concept certainly was widely copied after the introduction of the first such machine. However, the original design, as embodied in the particular machine, was so clearly superior to those of later imitators that the innovator was able to retain a strong market position despite lack of protection.

Conclusion

To return to the main point of this section, it is clear from this analysis, and that of the previous chapter, that vertical product innovations provide an unambiguous increase in welfare as long as they are not combined with product displacements. They allow increased consumer choice and increased consumption of desirable characteristics or increases in producers' surplus. Whatever the distribution of income, such changes are clearly desirable. If vertical innovation above the amount that would otherwise be forthcoming, can be promoted through the Act, or some revision of it, then a strong case can be made for retention of this statute.

The next chapter deals with the empirical evidence on the question of the relation of the existence of the Industrial Design Act to the level of innovation in the economy. However, it might at this point be useful simply to note that, if vertical innovations are identified with operation innovations, while horizontal ones with visual innovations, then the Act as presently constituted clearly deals almost exclusively with horizontal innovation. Operational innovations would receive protection only if the form of the product is so closely linked to its operation that any other machine which works the same would have to look enough like the original to be considered a copy. Furthermore, operational innovations are much more likely to be patentable than are visual ones.[3] For both of these reasons, it seems clear that the presence or absence of industrial design protection will not significantly affect the level of operational innovations in the economy. The relevant question, therefore, as stated also in the last chapter, is whether the increased level of product differentiation which would be encouraged by the Act produces a smaller or a larger total of surplus (producers' and consumers') in the economy.

3.3 Horizontal Product Differentiation

Introduction

The preceding discussions have indicated that the crucial question remains that of the optimal level of horizontal types of products differentiation. While the Act probably does encourage some vertical innovation, it is not likely that an Act that focuses only on visible aspects of design will ever be able to provide much important stimulus to vertical innovation. Evidence on this point is examined further in Chapter 4. The possibility of a revision to address the Act to operational innovations will be assessed in Chapters 4 and 5.

In order to evaluate the question of the optimal level of horizontal differentiation further, we need first to look again at the definition and some examples of horizontal product differentiation, and then to construct a model which will allow analytical evaluation of the optimal level of product differentiation in a given market.

Horizontal product innovations can range from the kind, where the only change is in colour, to much more sophisticated changes in product characteristics. Even in a one-dimensional analysis products can have more or less of the characteristics given by the single dimension. For example, the model which we will shortly introduce was originally developed to analyze the market for breakfast cereals based on one single dimension of cereal, that of the proportion of sugar. Other such horizontal variations could include the introduction of new brands of cigarettes, especially those with somewhat lower "tar" and nicotine content than existing brands; the creation of new brands of soaps and laundry detergents, each with slightly different combinations of such characteristics as washing power, suds levels and operating water temperature. All of these new products basically combine available inputs in slightly new ways, presenting the consumer with a new choice without extending the amount of characteristics which he could consume for the same income.

As noted earlier in Chapter 2 and 3, the increased choice has some functional value for at least some consumers, under our assumptions about the nature of the consumers' preference functions. The problem is to define and analyze a model which will allow us to evaluate whether the consumers' surplus generated by the introduction of a new product is outweighted by the cost of developing that product, and therefore whether the new product creates a net welfare loss. The analysis will conclude that, under many circumstances, firms in moderately concentrated consumer product markets are more likely to introduce horizontal innovations, and these innovations are less likely to produce increases in net welfare than are firms in highly concentrated industries or in producers' goods.

The Analytical Model

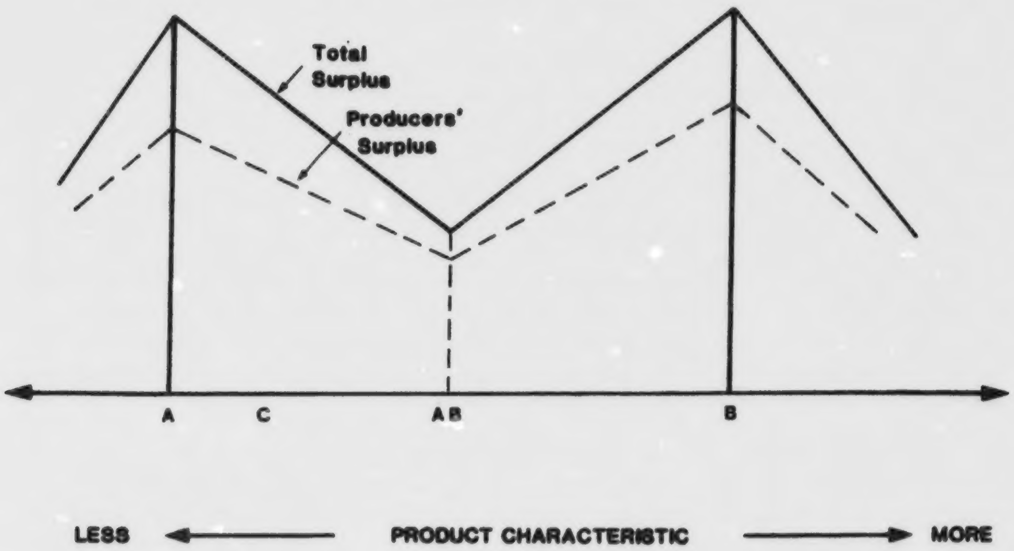
To pursue this question more analytically, it is useful at this point to introduce a relatively simple model which will allow analysis of the net welfare effects of a horizontal product innovation. This model was developed by F.M. Scherer as part of an empirical study of the optimal amount of product innovation in the breakfast cereal industry.[4] We can adopt it as a general framework here.

Diagram 3-1 sets out the basic situation. The model analyzes the case where the product has only one characteristic, but that characteristic can vary in degree or intensity. Then different products are distinguished entirely by the intensity of the provision of the single product dimension.[5] The horizontal axis in Diagram 3-1 represents a one-dimensional space over which a product's perceived characteristics might vary. Consumers' preferences for a given characteristic are described by their location in the space. For example, if the axis in the diagram represents the characteristic "strength", then a consumer who prefers a stronger product would be located closer to point B than to point A.[6]

The vertical axis of Diagram 3-1 measures, for any point on the horizontal axis, the area under the inverse demand function for all consumers whose preferences match that point, given the prices of the product in question and also the prices of all substitute and complementary products. The upper, solid, line shows the total surplus, both producers' and consumers', for any given point; the lower, broken, line shows producers' surplus alone. Consumers' surplus is, of course, the distance between the two lines. These lines form a series of tent-like shapes, with their peaks at the point in the space which represents the actual characteristics intensity of some product.

In this particular example, Diagram 3-1 assumes that only two products (A and B) are actually supplied, at least initially. These products have characteristic intensities such that they will exactly match the tastes of those consumers who are actually located at points A and B along the characteristics scale. Those whose preferences are not exactly satisfied by either A and B (who in general, will be most consumers) must buy one or the other (or some mix of them if that is feasible), or perhaps some quite different products. (Under the assumptions of the last chapter, consumers who are located near A will choose A in preference

Diagram 3-1 - SURPLUS FUNCTIONS IN PRODUCT CHARACTERISTICS SPACE


Total Surplus
Producers' Surplus
A
C
AB
B
LESS
PRODUCT CHARACTERISTIC
MORE

Consumer at C has a set of preferences that do not match the products available. He buys less and gets less satisfaction than he would if C were a product choice. The producer's surplus is also less than he would get if he were supplying C because less is bought than otherwise.

to either some other product or B). In any case, consumers whose ideal product is represented by neither A nor B will suffer a loss in utility by having to consume an imperfect substitute. (This loss in utility is analogous in a geographic spatial model to the transportation cost a consumer incurs in securing output from a geographically distant plant under FOB pricing. Given downward sloping demand functions, a higher delivered price means that less will be consumed by more distant consumers, ceteris paribus.)

In Diagram 3-1, the loss of utility from consuming less than ideal products leads analogously to a lower quantity demanded, the more distant the consumers' preferences are from either A or B. This factor, along with the assumption of a uniform distribution of preferences over the horizontal axis, gives rise to the tent shape of the surplus functions, whose maxima are at the points in space where product characteristics exactly match preferences.

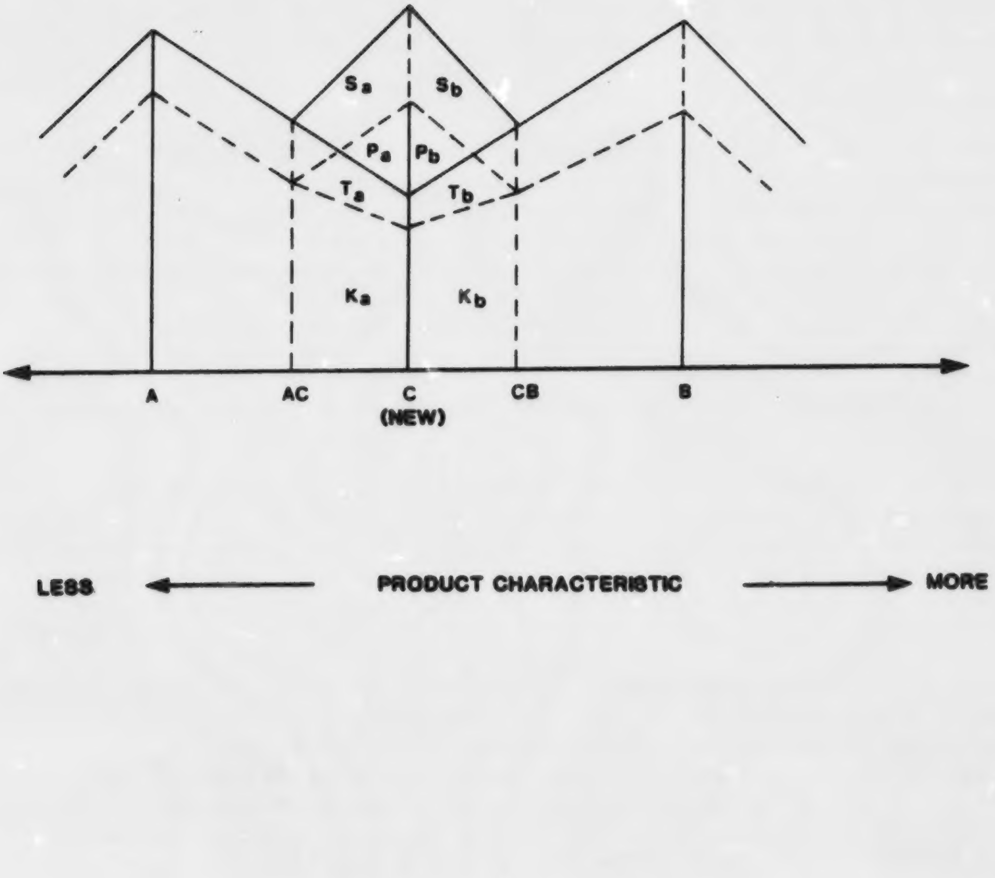
New Products

The introduction of a third product C lying between products A and B in terms of the relevant characteristic is analyzed using Diagram 3-2. The introduction of this third product allows consumer preferences in the neighbourhood of C to be satisfied better, leading to an increase in consumption by those consumers and, therefore, to increases in consumers' and producers' surplus, represented by the new tent-shaped functions with maxima above point C. (As in other spatial models, purchases are assumed to be divided among products at boundaries, i.e. AC and CB, where the total surplus functions intersect.)

Let us first consider the implications of a monopolist contemplating the introduction of product C. If the single producer currently selling products A and B contemplates the introduction of product C, and if other producers cannot enter at C for some reason, the relevant surplus to the producer of A and B from introducing C is the sum of areas T_a, T_b, P_a and P_b. The areas T_a and T_b represent transfers from consumers' into producers' surplus while the area represented by P_a and P_b are true increases in producers' surplus. Note that the areas K_a and K_b represent transfers of producers' surplus earned on products A and B to surplus earned from C. Hence, the monopolist producer will not consider areas K_a and K_b to be a net increase in surplus from introducing product C.

Second, consider a market structure with "monopolistic competition", (i.e. many sellers of slightly differentiated products). Entry into the industry by one new firm is possible at any point along the characteristics axis. We are

Diagram 3 - 2 - THE INTRODUCTIONS IN OF A NEW PRODUCT


Sa
Sb
Pa
Pb
Ta
Tb
Ka
Kb
A
AC
C
(NEW)
CB
B
LESS
PRODUCT CHARACTERISTIC
MORE

now evaluating the decision of a monopolistic competitor who will be offering C in competition with the other firms producing products A and B. If this second firm assumes that the prices of A and B will remain unchanged after it introduces product C, it will perceive itself as gaining areas T_a, T_b, P_a and P_b, plus K_a and K_b. That is, the transfer of surplus from the sellers of products A and B represents a net increase in surplus for the monopolistic competitor. Thus, a monopolistic competitor will ordinarily have a larger gain in surplus through new product introduction than would the monopolist. The monopolistic competitor will choose to introduce product C as long as the increase in his surplus (i.e. sum of areas $K_a + K_b + T_a + T_b + P_a + P_b$) exceeds the costs of launching product C. The monopolist, on the other hand, will compare the sum of the areas $T_a + T_b + P_a + P_b$ to the cost of launching product C in making the new product introduction decision.[7] Thus, if C's launch costs are the same for each, there is more chance of the one competitor entering with C than of the monopolist expanding his product line.

An important social welfare issue is whether the variety of products supplied under any market structure is optimal. Assuming that a dollar of consumers' surplus is valued equally with a dollar of producers' surplus, it is socially efficient to introduce a new product if its addition to surplus net of transfers - that is, the increase in pure producers' surplus of $P_a + P_b$ plus gains in consumers' surplus of $S_a + S_b$, exceeds the costs of launching the product. The product will, in fact, be introduced by a monopolistic competitor (or an entry deterring monopolist) if the areas $(K_a + K_b + T_a + T_b + P_a + P_b)$ exceeds the costs of launching the new product. If $(K_a + K_b + T_a + T_b)$ exceeds $S_a + S_b$, it is possible for product C to be profitably introduced but for its introduction to be socially inefficient. If the converse is true, and if $(P_a + P_b + S_a + S_b)$ exceeds the costs of launching the product, the introduction of product C will be both profitable (in a private sense) as well as socially efficient.

Diagram 3-2 suggests a number of factors that influence whether decisions motivated by profit maximization under actual or potential monopolistic competition will tend also to advance social welfare. For example, the slopes of the surplus function at different points along the characteristics axis will reflect the degree of substitutability among the various products. If they are relatively good substitutes for each other, their respective surplus functions will look flatter or smoother.[8] This reflects the fact that when products are relatively good substitutes for one another, demand will fall off less rapidly when consumers have to make do with a product that departs by some given amount from their "ideal" characteristics. The flatter the various surplus functions, the smaller the diamond-shaped area (S_a S_b P_a P_b) relative to $K_a + K_b$ That is, introducing a new product that is a very close substitute for existing products will have a relatively small demand-expanding effect and will primarily result in producers of existing products losing sales (and associated profits) to producers of the new product. In sum, the degree of product differentiation at the optimum will be greater if the products are not very close substitutes and the taste for diversity is greater, *ceteris paribus*.

Some Special Cases

Several realistic complications must be recognized. To this point, we have assumed that the prices of products A and B remain fixed when product C is introduced at the same price. However, if the introduction of product C, and the subsequent loss of market share for producers of goods A and B, touches off a price war, the total surplus function might be shifted upward. The effect here might be likened to a breakup of a cartel in which price falls, output increases and there is a shift of surplus from producers to consumers, but where - on balance - there is a net increase in overall surplus due to the elimination of the "deadweight" loss from monopoly. Such price decreases are less likely in markets where sellers respect their interdependence in pricing and cooperate toward joint profit-maximizing policies.

Another complication is introduced by the presence of economies of scale in production. If goods A and B are characterized by economies of scale, a cutback in output will increase unit costs of production. This in turn, will lead to a decrease in producer profits and, possibly, a decrease in the surplus for consumers of products A and B. This phenomenon can be modelled as a shift downward in the total surplus function as a result of the introduction of C. The increase in total surplus would then have to be estimated netingout ($T_a + T_b + K_a + K_b$) plus any other decreases in producer and consumer surplus. This net increase will clearly be smaller than in the case of constant cost production. Hence, the optimal degree of product differentiation will be lower the greater the degree of economies of scale.

The assumption that the product characteristics space is one-dimensional, while unrealistic, poses no limitations to our conceptual analyses. It does, however, complicate our empirical evaluation of whether given markets are likely to be characterized by too much or too little product differentiation. In particular, it is very difficult to evaluate the welfare implications of new product introduction in markets where product interactions occur over a large number of dimensions and where small numbers of firms compete.

Conclusion

This model has allowed a more clear explication of several points about the optimal level of product differentiation in a market. First, it illustrates the tradeoff in the introduction of any new product. Because consumer preferences are evenly distributed in the space, any differentiated new product will increase consumer surplus by coming closer than existing products to the ideal of at least some consumers. Against this gain must be set the costs to society of having the extra product. These costs are both the development and other start-up costs for the new product costs for the new product (part of which would be any design costs), and the possible increase in production costs for competing products where there are economies of scale in production in the output range where production is currently taking place. We also noted that certain market structures tend to create conditions where excessive product differentiation is more likely. These conclusions point to some obvious empirical questions, to which we now turn. The remainder of this chapter will focus on stating empirical questions, while the next chapter will focus on answering them.

3.4 Empirical Questions

From the discussion above, it is clear the empirical questions center around evaluating the factors which would either: (a) increase the welfare payoff (the increase in total surplus) available from new products introductions, or, (b) increase the cost of new product introductions. To evaluate the likelihood of the current existence or future emergence of excessive product differentiation, we must also investigate the competitive structure of the relevant markets.

First, it is clear that the rewards to new product introduction will be greater for both producer and consumer if the consumers' tastes are highly discrete. That is, the more highly the consumer values a product which exactly fills his needs, and the less willing he is to accept compromises, the greater the consumers' surplus (and therefore total surplus) which will be generated by the introduction of a new product. Empirically, this question can be put in terms of the "cross-elasticities" of demand between the various products in the market. The higher the cross-elasticities (that is, the more sensitive demand for product A is to changes in the price of B) the less will be the gain in consumers' surplus when a differentiated new product is introduced. Empirically, then, we should try to determine the degree of cross-elasticity in the product markets where registered industrial designs are important. Unfortunately, as we shall see in the next chapter, data relating to cross-elasticities are extremely difficult to obtain.

A second empirical question raised by this analysis is the extent of the economies of scale in the industries where registered industrial designs are important. Most manufacturing processes have some scale economies, especially when starting at low levels of production. If for no other reason, such economies are created by the learning curve. However, for most products the long-run average cost curve probably flattens out beyond a certain point. This occurs as the result of two kinds of economies of scale: (a) product level economies, which relate to the production condition of the individual product, and (b) plant level economies, which relate to the efficient use of the whole plant. For plant-level economies, the long-run average cost curve flattens out when there are no further scale economies available once a given size of plant (called the minimum efficient size, or MES) has been reached. However, even in plants of MES size, product-level econmies of scale can be important. If too many products are made in the same plant, so that no product can reach the flatter portion of the learning curve, or otherwise achieve optimal length of production run, then the available product-level economies are not fully exploited, and there are diseconomies of scale at the product level.

Where the long-run average cost curve has this shape plant-level economies -- that is, where there is some identifiable level of output beyond which costs start to fall -- production generally will take place on the flat portion of the curve. Firms will choose to build plants large enough to be efficient. If the plants are not only efficient but are well beyond MES size, then the loss of output from the introduction of one new product may not be large enough to drive any plants below MES. In that case, there is no production cost penalty for the welfare analysis. In general, it is assumed that firms will produce at volumes greater than the MES if possible, so that possible production cost increases due to the failure to exploit available economies of scale would not generally be a major policy issue in large markets such as the United States. A similar argument can be made for product-level economies.

However, it is widely recognized in Canada that the domestic market for many goods is too small to support a competitive market consisting of several firms, each of them producing at minimum cost.[10] In that case, any reduction in output from existing plants would in fact force existing producers back up their cost curves, and would cause an increase in costs in general. This argument is frequently called the "miniature-replica" effect: Canadian branch plants of foreign, especially U.S. owned firms, tend to attempt to produce a full line of products ("replicate" the parent's line, usually for marketing reasons), even though the Canadian market cannot support efficient production of that many different products. This results in inefficient production, at least at the product level, but often at both product and plant levels.

Therefore, another relevant empirical question is that of the degree of economies of scale in those industries which use industrial design registrations and the extent to which companies operate plants of at least MES size providing products at sufficient levels to exploit available economies of scale.

A third general topic of empirical investigation is the market structure of the relevant industries. The preceding model indicated that there would be a tendency for excessive product differentiation in markets characterized by monopolistic competition and relatively easy entry. Since industries which have these structures would tend to have excessive produce differentiation in any case, industrial design protection is more likely to reduce total welfare in such industries. The question, then, is whether the industries which tend to be heavy users of the registered industrial design system also tend to be monopolistically competitive. On the other hand, as the analysis shows, monopolistic industries would not be likely to have excessive product differentiation.

3.5 Footnotes

[1] Kelvin Lancaster, Variety, Equity and Efficiency, New York: Columbia University Press, 1979.

[2] Welfare would not be reduced if the new design were sufficiently cheaper to produce that the consumer would buy enough more of it to compensate him (or her) for his(her) loss of visual pleasure.

[3] It is by no means certain that operational innovations will be patentable.

[4] F.M. Scherer, "The Welfare Economics of Product Variety: An Application to the Ready-to-Eat Cereals Industry", Journal of Industrial Economics, v. 28, December 1979, pp. 113-134.

[5] As mentioned earlier, Scherer developed this model with reference to the amount of sugar in breakfast cereals. The characteristic chosen only matters in so far as it relates meaningfully to the particular empirical questions.

[6] As in Chapter 2, we assume that preferences are densely distributed over the space. For convenience, we further assume here that the distribution is uniform. This further assumption makes the diagrams easier to draw, but does alter the conclusion.

[7] This difference essentially underlies economists' contention that greater product variety will emerge under monopolistic competition than under pure monopoly. Of course, a monopolist might introduce product C to deter entry in which case no difference in product variety would emerge.

[8] An analogous consideration is that the taste for diversity on the part of consumers is relatively limited. Diversity costs more decision making effort and this can be a disutility. This would also contribute to the surplus functions being more flat than peaked.

[9] These results are derived in a more rigorous and elegant manner in Lancaster (1979), op. cit.

[10] H. Eastman and S. Stykolt, The Tariff and Competition in Canada, Toronto: Macmillan, 1967.

CHAPTER 4

A REVIEW OF THE EVIDENCE

4.1 Introduction

The preceeding chapters have resolved some questions, and left others to be resolved by the evidence. The course of the theoretical considerations has dictated in which directions we must look for empirical evidence to determine what influences an optimal Industrial Design Act would produce.

The earlier chapters concluded that, if there are important empirical effects, they are to be found in the area of allocative efficiency. The potential allocative effects of industrial design protection, in turn, break down into two sequential empirical issues.

The first issue is, does the Act, as it stands or as it might be altered, promise to induce a significant increase in the quantity of resources devoted to industrial designing so that we get the resulting output of more and better industrial design? This question includes that of whether some measures other than intellectual property protection might not be more cost-effective in promoting more and better industrial design.

The second issue is, does increased industrial design, on the margin, offer significant net economic benefits for Canada? This question encompasses considerations relating to whether or not total economic surplus will increase as a consequence of industrial design protection, net of the costs of administering the chosen form(s) of protection. The empirical questions arising from Chapter 3 will be addressed in this section.

4.2 The Impact of Industrial Design Protection on Design Activity

4.2.1 The Patent System and Innovative Activity - An Analogy

As a later section of this chapter will show, there is very little empirical evidence on the amount of industrial design activity in Canada. There is even less evidence on what factors might influence the amount of such activity. However, there is a substantial literature discussing a parallel issue. Does the patent system significantly affect technical innovation activity? This question is more readily amenable to empirical analysis because there is much better evidence on the amount of technical innovation in Canada, as well as on the expenditures by firms on activities intended to produce innovations, such as research and development. Since patent protection is stronger than industrial design protection an examination of the evidence on the effect of the patent system on technological innovation should be instructive about the likely effects of industrial design protection on industrial design activity.

There is substantial controversy in the literature over the impact of the patent system. Defenders of the patent system argue that it increases the aggregate level of innovation activity and, on balance, improves R & D "quality". Critics of the system argue that it may be largely irrelevant in terms of promoting innovation and (or) that it encourages wasteful efforts to "patent around" existing patents.

Defense of the patent system is founded on the notion that the reward to innovation activity would be appropriated by imitators if the innovators had no legislated monopoly right. As a consequence, less than the socially desirable amount of innovation would be forthcoming without patent protection or some equivalent form of intellectual property right.

Also, the patent system is seen as improving the quality of R & D by helping to direct inventive and innovative activities into fruitful channels. For example, the registration of patents and disclosure of supporting technical details is said to help direct R & D undertaken by firms into technologically promising areas and away from technological deadends. Further, the publication of technical information may facilitate the improvement of existing products because no one is likely to make significant investments searching for ways to increase the commercial value of a patent unless he has made previous arrangements with the owner of the patent. Therefore, the existence of a published patent allows the patent owner to coordinate the search for technological and market enhancement of the patent's value so that duplicative investments are not made, and so that information is exchanged among the searchers.[1]

Opponents of the patent system counter that invention and innovation would take place without patent protection. One argument in this regard is that competition is ordinarily sufficiently intense so that firms must innovate to survive. Marketing advances are often as impressive as improvements in products and production techniques, despite the fact that there is no patent protection available in marketing.

Alderson, Terpstra and Shapiro[2] ascribe the impetus for marketing innovations to the advantages of operating at or near capacity in mass production and mass marketing, which in turn make the pressures for marketing innovation irresistable. Even though any advantage may be competed away fairly quickly, the agressive competitor still is under pressure to maintain his lead by developing further improvements in marketing.

Another argument against the effectiveness of patent protection is that innovators can often capture the rewards of their efforts without having a legally established monopoly right. For example, the innovator could use inside information about impending technological changes to take positions in equity and commodity markets so that he(she) would profit from relative price changes once information about the new technology was revealed to the market.[3] More importantly, innovation often creates a temporary monopoly for the innovating firm, allowing it to earn "quasi-rents" more than sufficient to compensate for its costs and risks incurred in innovation. Such a temporary monopoly may be created by the inevitable lag in competitive duplication of an innovation. This lag will vary, of course, with the nature of the innovation. For example, innovations that exploit specialized skills of the innovating firms will be harder to copy than those embodying little firm-specific human capital.

It should be noted that in the absence of patents, firms may concentrate on innovations that can be efficiently practiced in secret by a single firm, or may incur expenditures to keep new technology secret. A patent system might therefore, afford indirect economic benefits by providing a uniform structure of incentives for innovation without regard to the possibility of secret exploitation and/or by reducing expenditures required to keep new technology secret. On the other hand, it has been argued that the patent system stimulates an excessive amount of R & D expenditure by providing an incentive to patent around existing patents in order to obtain a share of the monopoly profits.

A number of major studies have addressed the issue of whether patent protection affects innovation incentives. By and large, the studies come to equivocal conclusions. For example, Machlup concludes:

> "None of the empirical evidence at our disposal and none of the theoretical arguments presented either confirms or confutes the belief that the patent system has promoted the progress of the

> technical arts and the productivity of the economy".[4]

Silberston, summarizing the results of case studies of four industries (chemicals, electrical engineering, mechanical engineering, and man-made fibres), concludes that the impact of the patent system on R & D and innovation is of marginal importance with the exception of pharmaceuticals.[5] Scherer's evaluation of the available evidence is that only certain types of innovations are likely to be promoted by the existence of patent protection, those innovations which offer potentially exploitable benefits that are small in relation to development costs and spectacular technical contributions which effect a genuine revolution in production.[6] He hazards the guess that examples of the latter type occur perhaps a few times per decade. Given this general uncertainty about the net effect of the patent system on innovation activity, evaluating the impact of a little more or a little less patent protection is acknowledged to be a thoroughly specu- lative exercise. Thus, the patent literature provides no decisive conclusion respecting the stimulative effect of patent rights on innovation.

Application to Industrial Designs

While the evidence from patent studies is inconclusive, several theoretical considerations suggest that, if anything, legal protection of industrial designs is likely to have a less significant influence on design activity than patent protection has on innovation.

As pointed out in the legal discussion, the Act has never contained a definition of "design" or "industrial design". The suggested definition under judicial interpretation is that design is a pattern which the "eye can see". Thus, only the unique visual components of shape, configuration or ornamentation can ostensibly receive protection under the current Act. The design of these unique visual components is ordinarily a relatively small part of the overall development effort which includes developing aspects of the product such as efficiency, safety and other operational elements. Some of these latter elements could be protected under the Patent Act if they can meet what are, in practice, fairly modest requirements for originality. Those visual design elements that are inseparable from operational elements could also receive some protection under the Patent Act; where form is inescapably linked with operation, the operational design will be protected along with the form. Since patent protection is stronger (in a variety of respects) than industrial design protection, designers would choose to apply for a patent whenever they can, making industrial design protection redundant in such cases.

In a similar vein, a design could be eligible for copyright protection if it is not originally intended for reproduction in industrial use. This protection currently remains available even if the design is subsequently reproduced.[7] Again, since copyright protection is stronger than industrial design protection, the design protection would really be redundant in such cases.

The discussion of the effectiveness of patent protection helps give some insight into the question of whether an Industrial Design Act incorporating some protection for operational innovations could be instrumental in promoting design. It is possible, as noted in Chapter 2, that some operational innovations consist of combining existing components in new ways, and therefore would not represent an original enough use to qualify for patent registration. One possibility for change in the Industrial Design Act would be to attempt to include such innovation in the definition of registrable designs.[8] However, the discussion of the effectiveness of patent protection indicates that such a change would not be likely to have much effect on the amount of industrial design. First, it would probably be possible to circumvent such a "design patent" more easily than it would be to circumvent the usual patent protection by designing around it. Second, that type of industrial design protection would still be weaker than the patent protection. Since it is not clear from extensive studies that patents do promote significantly more innovative activity, it would be even less clear, by analogy, that the industrial design protection would promote significantly more design innovations.

4.2.2 Effect on Foreign Users of the Canadian Industrial Design Protection System

When considering the effect of the Industrial Design Act on the amount of design activity in Canada, it is relevant to ask whether the users of the Act are actually Canadians. In fact, about 70 per cent of the total number of design applications filed in Canada are filed by non-Canadian residents (see Table 4-1). The majority of such non-resident filers are U.S. nationals. It seems unlikely that Canada's Act could have any effect on the design activities, in Canada, of these non-resident filers, who are presumably protecting designs in Canada they have probably developed elsewhere. And, while it is not clear that promoting design activities in foreign countries should be an objective of the Canadian Act, it is extremely unlikely that changes in the degree of design protection available in Canada would affect the amount of design activity in the home countries of foreign users of U.S firms are unlikely to become profitable on an *ex ante* basis simply because significant design protection is available in Canada.

TABLE 4-1

INDUSTRIAL DESIGNS REGISTERED IN CANADA BY SELECTED COUNTRIES

FILINGS BY NATIONALS OF:(1)

CALENDAR YEAR	CANADA	FRANCE	JAPAN	SWEDEN	U.K.	USA	TOTAL (2)
1964	256	11	11	5	62	451	838
1965	334	9	6	3	70	466	960
1966	449	16	17	2	79	501	1114
1967	441	29	14	5	95	548	1199
1968	310	15	5	3	67	456	903
1969	310	18	37	5	84	421	939
1970	382	45	47	17	108	627	1375
1971	452	52	97	2	128	631	1549
1972	300	38	103	21	92	508	1176
1973	251	48	85	32	108	591	1292
1974	276	58	67	60	84	504	1208
1975	337	100	112	70	70	639	1505
1976	491	44	88	41	77	539	1454
1977	443	71	94	33	64	632	1503
1978	518	65	90	54	51	755	1717
1979	436	72	118	49	54	690	1635
1980	337	65	111	44	67	490	1315

Source: Data supplied to the World Intellectual Property Organization, Geneva, by the Bureau of Intellectual Property, Government of Canada.

Notes: (1) "Nationality" is based on the applicant's place of residence. Thus, a Canadian subsidiary of a multinational is classed as a Canadian. No such data was reported for years prior to 1964.

(2) The "Other" column is omitted here.

It is possible that without legal design protection, foreign producers would withhold newly designed products from the Canadian market in order to make copying by Canadian producers more difficult. This policy would have the effect of reducing the rate of introduction of differentiated products into the Canadian market. The impact of any such reduction on overall domestic "surplus" is potentially complex. It depends, among other things, on: (a) the nature of the design changes embodied in the new products (that is, vertical or horizontal design changes); (b) the vehicles by which newly designed products are introduced into Canada (e.g. through direct exports or through Canadian manufacturing subsidiaries); and (c) the impact of such reduction on competition levels in domestic industries.

While the net effect is uncertain, it is unlikely to be significant in any case since the costs of "stealing" a design will be increased only marginally by restricting legal sale of the designed product to markets where legislation protecting industrial designs is in force. For example, it is well known that clothes designers from around the world go to New York and Paris to "knock off" original designs. Refusal to sell designer products in the copyists' countries would hardly deter imitation. Indeed, it would only relinquish foreign markets to copyists without any hope of receiving royalties.

4.2.3 International Reciprocity

There are stronger grounds for concern that the amount of design activity undertaken by Canadian residents would be affected by the extent and nature of legal design protection. This concern arises from the fact that reciprocal treatment under international law would likely prevent Canadians from registering designs abroad if design protection were effectively eliminated in Canada. Canadian designers would then face the risk of design appropriation by both domestic and foreign producers, and this risk could significantly reduce the *ex ante* profitability of domestic design activity. However, any such reduction would be mitigated by the continued availability of other intellectual property right protection for some designs, such as those which have significant enough operational innovations to qualify for patents. The full consideration of this issue must be left to Chapter 5.

4.2.4 Institutional Considerations

Several other features of the industrial design environment tend to weaken the relationship between design activity and legal design protection.

First, the appropriation of designs is often undertaken by large retailers rather than by rival manufacturers. The retailers generally contract out production of the appropriated designs for sale in their own stores. This is sometimes done with the full knowledge of the designer, who chooses not to bring action against the retailers for fear of jeopardizing future sales.[9] Given extensive market power of Canadian department stores and other chain retail outlets,[10] it is plausible that the ch stores have enough de facto control over many manufacturers of designed products to render any form of legal design protection irrelevant when application of the law must be initiated by the registrant of the design.

A second feature worth citing is that design secrecy, or even legal protection against copying, may be irrelevant in a significant number of cases, notably in the case of government design activity. The Canadian government is the fifth biggest user of the Design Registry, registering road signs, stationery and so forth.[11]

Third, protection could also be irrelevant where external economies exist in marketing new product types, i.e. where the fact that several sellers offer a new product type gives consumers more confidence in the product than they would have if the product were only offered by one supplier.[12]

Another piece of anecdotal evidence supporting the assertion that design protection is of only marginal importance to design activity, is the absence of any strong call from those concerned with stimulating more and better industrial design for increased industrial design protection. One prominent group is the National Design Council. The Council was established by Act of Parliament in June, 1961 and consists of 17 members, appointed for terms of three years by the Governor-in-Council. The Council advises government through the Ministry of Industry, Trade and Commerce on matters relating to the improvement of design in Canada. The Council, through its Secretariat and various advisory committees, seeks to identify impediments or opportunities in the field of design.

As part of the Council's efforts to identify design impediments and opportunities, it has commissioned studies into the factors influencing the design process in Canada. In its reported view, the Council feels that factors such as the taxation system and the lack of management innovation skills, in particular, are adversely affecting Canadian innovation and design. The factors are, in turn, directed towards the concern that secondary industry in Canada has little economic incentive to grow beyond a relatively low threshold of level of sales, and that large Canadian-owned industrial firms capable of supporting technological and design development are few in number.[13] In suggesting ways in which governments can provide leadership and incentives to promote design excellence in Canada, government procurement practices, public works and assistance programs were separately identified.[14] Without commenting on the Council's analysis and recommendations, the important point is that this knowledgeable body apparently does not regard increased legal protection of industrial design as a promising way to promote quality design activity in Canada.

Similarly, P.L. Bourgault and H. Crookell prepared a study for the Innovation Committee of the Council on the problem of promoting in-house design capacity in Canadian firms.[15] This study found that Canadian subsidiaries of multinationals tend to lack industrial design capabilities, just as they lack other product development facilities. While the study contained a number of recommendations for federal government action to encourage the establishment and expansion of Canadian design facilities, it did not mention increasing legal protection. Again, without commenting on the analysis, the important point is that this presumably comprehensive set of recommendations did not include increased legal protection as an effective way to promote design activity.

Finally, we should add that some designers and entrepreneurs with whom we discussed the role of the Act informed us that it was of minimal significance in innovation decisions and activity. While not all hold this opinion, the fact that many do, and the fact that a few were unaware of the Act, supports our general conclusion.

The foregoing analysis suggests that, on balance, the impact of legal design protection on industrial design activity is likely to be weaker than the impact of patent protection on innovation activity.[16] Since the impact of the Patent Act on the overall rate of innovation is conjectural, the empirical relevance of the design-stimulating effects of legal design protection, by extension, is even more questionable. Unfortunately, no studies of the relationship between overall design activity and the extent and nature of design protection have (to our knowledge) been done. Given the very incomplete data that exist in this area, it is unlikely that persuasive statistical investigations of this issue can be undertaken. However, we are sufficiently confident in our conclusions that we cannot recommend the collection of such data or more statistical studies.

4.2.5 Summary

Unfortunately, we know of no direct evidence on the question of the effect on the amount of design activity of the current legal protection of "industrial designs" from copying. However, the extensive literature on the subject of the effect of the patent system strongly suggests that any such effect is likely to be conjectural, at best. Further, the institutional structure of some Canadian industries makes it less likely that protection plays much of a role in encouraging design activity. This view is supported by the failure of such concerned bodies as the National Design Council (Design Canada) to pay much attention to the possibility of increasing legal protection. On the other hand, one strong argument in favour of the view that legal protection may increase total design activity, is that under international reciprocity, Canadian designers would lose protection from copiers based anywhere in the world if the Canadian law were eliminated. However, even a very small increase in design activity could produce a large increase in total surplus if industrial design activity has substantial beneficial consequences for the economy, in terms of net welfare benefits. The next section considers this question.

4.3 The Impact of Design Activity on Overall Economic Surplus

From Chapter 3, we can conclude that the net allocative benefits of industrial design activity depend strongly on the nature of the design innovation. While we could not conclude unambiguously that vertical innovations increase total surplus, they do in most circumstances. On the other hand, where there are already many similar products, and where the new product is a relatively close substitute, horizontal innovations are not likely to increase total social welfare. We have no direct evidence on the precise nature of industrial design activity along the dimensions introduced in Chapter 3. Nor do we have data that might permit a statistical investigation of the underlying effects of industrial design changes.[17] Therefore, we must once again rely, for the most part, on conceptual theorizing and "stylized facts" to address this issue.

Since we cannot directly assess the influence of design activity or its results on total social welfare, we will muster whatever evidence is available to help determine the likely direction of influence, if any. This investigation proceeds by first trying to determine whether the presence or absence of design protection has an impact on the amount of vertical innovation. Then we will consider the empirical evidence on whether industries characterized by use of industrial design registration show the conditions described in Chapter 3 as likely to lead to excessive product differentiation.

4.3.1 The Design Input in New Products

The direct costs of industrial design are generally a small fraction of the total costs of new product development. The costs of developing the prototype from designs, along with associated market research and testing, are the largest components of costs incurred in the product innovation.[18] However, this fact by itself does not indicate that industrial design is not important in the development of new products, since its impact could be greater than its share of the costs.

Design input into new product development can focus on the visual components of shape, configuration, or ornamentation and/or on improving operational aspects of products, such as efficiency and safety.[19] Major new products such as digital switching machines for central telephone offices, CAT scanners, and atomic reactors are likely to be evaluated by potential users more on the basis of operational than on aesthetic features. Nevertheless, even in high technology industries such as telecommunications, visual design features are thought to play an import role in influencing the purchase of new products.[20] Thus, while significant vertical design changes are more likely to be operational than visual in nature, and therefore more appropriately the concern of the Patent Act, visual design changes may still play an important part in the successful introduction of significant new products.

While it is unarguable that vertical design changes involving both operational and visual improvements are responsible for the success of many new products, it is impossible to determine how much design activity produces vertical innovation. Certainly, the distribution of design registrations across industries suggests that a substantial percentage of design activity focuses on consumer rather than producer use, and it is reasonable to assume that producers are likely to be more sensitive to operational than to visual changes. The major registrants of industrial designs are firms in the furniture, games and toys, packaging and storing, apparel, household articles and electrical equipment industries. These industries generally produce output for final use with an important visual component. Tables 4-3 and 4-4 set out some recent data on registrations.

However, it does not seem possible to distinguish "vertical" from "horizontal" aesthetic changes. We do note that, even within the industries that are intensive design registrants, the use of the registration option varies across firms. For example, a vast variety of individual jewellery products is not registered. Most of the jewellery registered is that of the largest main registrant.[21] There is also wide variation across firms in the electronics, toys and games, and other industry groups in the use of industry design registration. It appears that registrant firms tend to emphasize appearance and style more than some of their competitors who use the registration system less. Some of the other main registrants are reported to rely on "new models" (i.e. new appearances) more than competitors who have more stable product lines. In other words, visual product differentiation seems to be important to those firms that use the design registration system intensively. It seems likely that some firms spend extra efforts to make the visual components stand out, or, a significant part of the design effort in these industries is devoted to developing purely visual innovations. As noted in Chapter 3, most of these are probably horizontal in nature, although we have no reliable way of distinguishing vertical from horizontal visual changes.

4.3.2 Optimal Product Differentiation in Canadian Industries

Since there appears to be a substantial amount of horizontal innovation being protected by industrial design registration, we must consider whether increased differentiation in those industries promotes social welfare. Our discussion in Section 3.3 of Chapter 3 identified a number of key determinants of the optimal level of product differentiation. These include the cross-elasticities of demand between products in the industry, (that is, the degree of substitutability), the degree of seller concentration in the market, and, the extent of economies of scale in production.

If differentiated products are close substitutes for each other, additional horizontal innovation is more likely to be excessive from an efficiency standpoint, other things constant. This likelihood is reinforced if production technology is characterized by economies of scale and if consumers' tastes apropos the relevant product groups are relatively homogeneous. A full and rigorous analysis of the optimal degree of product differentiation therefore requires the estimation of demand and cost conditions for actual as well as potential products. In particular, following the theoretical framework outlined in Chapter 3, Section 3.3, the structure of consumers' preferences and the substitutability of goods should be identified on the basis of attributes

TABLE 4-3

1978 PATTERN OF DESIGN REGISTRATIONS IN CANADA RANKED BY PRODUCT TYPE

GROUP NAME	NUMBER REGISTRATIONS	PERCENT OF TOTAL	CUMULATIVE PERCENT
1. Games and Toys	209	12.2	12.2
2. Packages and Containers	180	10.4	22.6
3. Furniture	114	6.6	29.2
4. Misc. Household Goods	96	5.6	34.8
5. Textile Fabrics	93	5.4	40.2
6. Transportation	73	4.3	44.5
7. Communication Equipment	62	3.6	48.1
8. Building Materials	60	3.5	51.6
9. Fine Arts	52	3.0	54.6
10. Toilet Articles	52	3.0	57.6
11. Measuring Instruments	51	3.0	60.6
12. Sales and Advertising Equipment	49	2.8	63.4

Some Very Low Categories:

Wallpaper	2
Kitchen Equipment	1
Printing and Office Machinery	1
Farm and Garden Equipment	7
Floor Coverings	2
Ladders	3
Music Instruments	4

Source: Design Registry, Bureau of Intellectual Property, Department of Consumer and Corporate Affairs, Government of Canada.

or characteristic.[22] This exceedingly complex task is beyond the scope of this study. Our evaluation of the net social benefits of addditional horizontal product differentiation must therefore proceed on less formal grounds.

Other researchers have noted that although there are clearly defined conditions that must be satisfied for the optimal configuration for a specific number of product differentiates, there are no easily recognizable conditions with respect to the actual number of goods. However, under increasing returns to scale, when imperfect competition tends to give non-optimal differentiation, the direction of bias depends on the exact market structure. Specifically, monopolistic competition will lead to too much differentiation, monopolization of a market sector to too little.[23] More complex market structures (i.e. oligopoly) may be expected to show effects of both kinds, leaving the direction of bias uncertain. Our informal assessment of whether more or less horizontal product differentiation is socially efficient therefore focusses on the market structures of the relevant product sectors as well as on whether or not economies of scale are likely to exist.

Our analysis is complicated somewhat by the fact that identification of those sectors in which industrial design activity is a prominent form of competition must rely on design registration statistics. As noted above, the major registrants of industrial design are firms in the furniture, games and toys, packaging and storing, apparel, household articles and electrical equipment sectors. Others include transportation, communication equipment, building materials, fine arts, toilet articles and measuring instruments. Registrations are filed according to categories of products, and it is not possible in all cases to link these categories precisely to Standard Industrial Classifications (SIC) in order to facilitate an examination of market structure. More specifically, product categories of actual registrations sometimes cut across SIC boundaries. In other cases, the relevant SIC category may be substantially broader than the product registration category it encompasses. Nevertheless, several of the product groups which are heavy users of design registration fit relatively unambiguously into a standard industry category. They include games and toys, furniture, apparel, communications equipment, toilet articles, and measuring instruments.

The standard dimensions of market structure include the number of firms, the heterogeneity of output produced, entry and exit conditions, and the existence of long-run profits above the cost of capital for the industry. "Monopolistically competitive" industries are characterized by a relatively large number of firms producing products that are differentiated in some way, by relatively easy entry into th industry, and by the absence of firms earning supernormal long-run profits. No one firm or small group of firms can be considered to "dominate" pricing and marketing strategies. On the other hand, monopoly -- by definition -- is a single-firm industry. Entry by new firms is ordinarily difficult and monopolists frequently earn profits well above their costs of capital. "Oligopoly" is the market structure region between monopoly and monopolistic competition. The boundaries between monopolistic competition, "loose" oligopoly, and "tight" oligopoly are not precisely defined.

Some analysts have recommended the use of summary statistical measures to classify industrial market structures. One frequently used measure is an industry's concentration ratio. One such ratio is the percentage of value added or value of shipments accounted for by the four largest establishments or enterprises in an industry. Another is the number of establishments or enterprises required to account for 80 per cent of industry output. A third is the Herfindahl Index for an industry.[24] The Department of Consumer and Corporate Affairs has recommended a guide for evaluating concentration ratios which is shown in Table 4-5. Given shortcomings associated with the use of any one indicator of market structure, an industry's concentration ratio is not a conclusive classification device. Nonetheless, it is one relevant measure, and according to it, the furniture, apparel, toilet articles and toys and games industries are most accurately described as monopolistically competitive. Almost 70% of the value of total factory shipments in the apparel industry major group originated in industries where the top four-firm concentration ratio is less than 25%. Virtually all of total factory shipments in the furniture and fixtures major group originated in subindustries where the top four-firm concentration ratio is between 25 and 49%. The four-firm concentration ratio equals 36.5% for the toilet preparation industry and 27.1% for toys and games.[25]

Other characteristics of these industries support the notion that they are monopolistically competitive in nature. Specifically, there are a relatively large number of firms producing differentiated output. Entry into each industry is relatively easy, particularly for apparel, furniture and toys and games, and profit rates can be generally considered "normal".

On the other hand, communications equipment and measuring instruments may be closer to oligopolistic in structure. In the communications equipment industry, the top four-firms account for 56.4% of the total value of factory shipments.

TABLE 4-4

THE TEN LARGEST USERS OF CANADA'S REGISTERED DESIGN SYSTEM' 1971 to 1979

RANK	COMPANY NAME (1)	NUMBER DESIGNS	MAIN PRODUCT LINES (2)
1.	C.H. Stuart Inc. (3) U.S.A.	379	Sarah Coventry brand of jewellery
2.	Matsushita Electric Japan	316	Panasonic and Technics brand electronic products
3.	Amerock Corporation U.S.A.	159	Handles and knobs of various sorts
4.	Malden Mills Industries U.S.A.	149	Textiles and fabrics
5.	Her Majesty the Queen Canada	145	Signs for government use
6.	Dart Industries U.S.A.	131	Tupperware brand household products
7.(a)	Ideal Toy Corp., U.S.A.	130	Games and Toys
(b)	Phillips, Netherlands	130	Electrical appliances
8.	Mattel, Inc., U.S.A.	114	Games and Toys
9.	Sharp, Japan	97	Various electronic products

Notes: (1) These are not the full legal names of the registrants. In some cases we grouped registrants together if they were known to be parts of the same multinational organization.

(2) These represent the products registered by these firms but do not exhaust their actual registrations nor represent their full product ranges as marketed.

(3) Two registrants were grouped here because they are reported to be the same company.

Source: Search of the public records at the Design Office, Bureau of Intellectual Property, Department of Consumer and Corporate Affairs, Hull, Quebec.

TABLE 4-5

CRITICAL VALUES FOR CONCENTRATION RATIOS

Four-Firm Concentration Ratio

Greater than 75% = highly concentrated

50 - 75% = moderately concentrated

25 - 50% = slightly concentrated

0 - 25% = atomistic

Number of Establishments Required to Account for 80 Per Cent of Shipments

Up to 4 firms = very high concentration

4 - 8 firms = high concentration

8 - 20 firms = fairly high concentration

20 - 50 firms = fairly low concentration

Over 50 firms = low concentration

Source: Department of Consumer and Corporate Affairs, *Concentration in the Manufacturing Industries in Canada*, Ottawa: Information Canada, 1971.

The four-firm concentration ration in the instruments industry is 56%. Certain sectors of the communications industry are relatively easy to enter, particularly subscriber switching equipment and components. Other sectors, such as transmisions, central office and cable equipment have significant capital cost barriers to entry. Barriers to entry in segments of the communications equipment and scientivic instruments industries are also related to substantial critical threshholds for R & D expenditures. These critical threshholds provide one source of economies of scale in the communications and instruments industries. Scale economies also exist at the product level. Learning-by-doing is an important source of product-level economies of scale in these industries.

Economies of scale appear more limited in the apparel industry. Capital requirements vary by product but, in general, they are low because most firms do not own production facilities and use independent production contractors instead. Furthermore, major branches of the apparel industries must be geared to rapid changes in style. A small plant with its inherent flexibility can more easily adapt to such changes. The relevant issue, however, is whether or not productivity would increase if there were greater standardization in the industry. Section work, i.e. labor divided by operations, is dominant in branches of the industry which produce fairly standardized garments. While it cannot be stated unequivocally that a division of labor increases output per worker, under the optimum conditions of a large volume of production of a few basic styles, section work seems to afford lower costs per unit of output.[26] It is also well accepted that while furniture is a taste item and that consumers value variety, the consequent short production runs, by inducing frequent changeovers, idle capital, and costly inventories, lead to higher costs per unit of output.[27] Although we are aware of no formal studies of the degree of economies of scale for toys and games and toilet articles, a similar conclusion would seem appropriate for them, since they are also generally taste items.

Summary

Our somewhat cursory evaluation of market structure and production conditions in a number of industry groups where design registration is important suggests that the majority already appear to be characterized by an excessive amount of product differentiation. More specifically, they can be characterized as monopolistically competitive industries having some economies of scale. Others, such as communications equipment and scientific instruments, appear to fall into a market structure category where the direction of bias is uncertain. Thus, it would seem safe to conclude that a substantial percentage of horizontal product differentiation associated with industrial design does not offer significant increases in overall surplus, and might indeed reduce the total of consumers' plus producers' surplus.

As noted at the outset of this chapter, it is impossible to be definitive about the extent and nature of industrial designing is directed towards effecting what we earlier called vertical product diffentiation; however,much of this design work is integrated into an overall product development program. The resulting output in these cases is often patentable, and design protection may conse- quently be irrelevant. Another substantial component of design is apparently directed towards horizontal product differentiation in product sectors where additional product differentiation has few, if any, ex ante welfare benefits. This leaves an uncertain amount of design activity, associated with either vertical or horizontal product differentiation, that is probably welfare-increasing. If the intensity of this design activity is related to the extent of design protection available, weak or non-existent design protection could lead to a reduction of such welfare-increasing industrial designing. We have no way of evaluating the foregone benefits of reduced designing of this sort. However, our analysis does allow us to conclude that a substantial percentage of industrial designing is unlikely to be affected by the legal design protection available and/ or is unlikely to have significant welfare benefits.

4.3.3 Costs of the Industrial Design Registration System

(a) Supply Restriction

One further point that should be considered is the potential for non-competitive costs to be imposed upon society by legal restraints on design imitation. Supply restriction is an important issue in the public debate surrounding the Patent Act. While it is acknowledged that restrictions on the production and sale of individual products could entail allocative efficiency losses in the short run, the general view is that many patented products face effective competition from other processes or products.[28] Since industrial design must be confined within the limits imposed by the function which the article has to perform, a family likeness can be expected between the results which society gets when different designers are set the task of designing a given article.[29] In short, good substitutes may ordinarily be available for products protected against copying by the Industrial Design Act; however, as is true in the case of patenting, the costs associated with restriction on supply of any individual product could be quite high. A particular concern has been expressed in this regard about restriction of supply in replacement goods markets for products such as automobile parts.

(b) Administrative Costs

There are also direct costs incurred in the administration of the examination/registration system. Currently in Canada, total administrative cost of running such a system, with a manual search mechanism, is about $230,000 per year, or about $130 per application on average. Revenues from all related sources, including applications, renewals and assignments, are estimated to total about $245,000 for the 1979/80 fiscal year. Since the Canadian registry operates essentially on a break-even basis, these private expenditures by and large cover the public costs of operating the examination/registration system.

Other private sector costs related to the registration system involve payments for registry searches and for preparation and processing of applications. A typical figure for such a service is between $300 and $500 per application. At the current rate of applications, this implies a total expenditure of between $500,000 and $900,000 per year. The total cost in 1979 for the complete processing of applications is therefore estimated to be between $750,000 and $1,150,000, including the administrative services of both the private and public sectors.

We should also include the costs of enforcing the design protection property right as part of the overall costs of the system. Once an alleged infringer is found, then the necessary enforcement costs can range from those of a lawyer's warning letter (say $50 to $100) up to very high levels needed to seek out all infringers, prepare court cases, and execute prosecution. Defenders also incur costs. These investigations and legal costs could range upwards to $10,000 each in prominent and extended cases. Also, multinational suits may be necessary if the owner decides to protect his rights in other countries where they may exist and be open to infringement. Unfortunately, we have no good evidence on these external costs in aggregate, either within Canada or for Canadians elsewhere. However, only a very few cases get to the last stages and their exact costs are kept confidential between the parties.

It may be helpful to make a very rough estimate on some such costs. We stress that this is only a very rougah guess since individual cases vary extensively in complexity and therefore in cost. For computation purposes, if we assume that of the 11,500 outstanding design registrations (in 1979), 100 require a lawyer's letter (at $75 each), 50 need follow up, pre-court negotiations ($500) and 2 actually get to the court stage ($2,500, for lawyers on both sides), then Canada's design registration system would have enforcement costs somewhere between $35,000 and $40,000 for 1979.

4.4 Summary

It is impossible given the available information to come to any precise and unambiguous conclusions about the net allocative benefits of industrial design protection such as that provided under Canada's Industrial Design Act. There is no doubt that industrial design, when integrated with engineering technology to effect vertical improvements (both operational and aesthetic) in products, is an important source of increased economic welfare. Whether legal protection of designs embodied in such products significantly increases the incentives to do more of such designing is uncertain given already existing market incentives and protection afforded under the Patent Act. The welfare implications of purely aesthetic changes are more conjectural, particularly for changes of a purely horizontal nature. Indeed, a reasonable argument can be made that encouraging additional design of a horizontal type, on balance, could lead to an excessive amount of product differentiation. This conclusion is reinforced by the recognition of the direct costs of administering the Act, as detailed in the previous section.

On balance, we find no compelling allocative arguments for strengthening legal protection of industrial design. However, the costs of administering the existing Act are relatively low, and given a presumption that some subset of industrial designing is, on the margin, encouraged by design protection and provides significant net welfare benefits, we do not see a strong case made for substantially reducing or eliminating industrial design protection either.[30] In short, we share Professor Machlup's conclusion as applied to the patent system and apply it here:

> "...if one does not know whether a system 'as a whole' (in contrast to certain features of it) is good or bad, the safest policy conclusion is to 'muddle through' -- either with it, if one has long lived with it, or without it, if one has long lived without it."[31]

TABLE 4-5

ASPECTS OF DESIGN ACTIVITY AND THEIR LIKELY IMPACTS ON THE EMPIRICAL RELEVANCE OF DESIGN PROTECTION

Attributes	Relevance for Design Protection
Designs may receive protection indirectly under the Patent Act	Weakens relevance of design protection
Majority of design applications are filed by foreigners	Weakens relevance of design protection in Canada
Designs not tied to brand image may be relatively easy to appropriate	Strengthens relevance of design protection
The government is a substantial source of design applications	Weakens relevance of design protection
Design appropriation often involves "quasi-integrated" corporations	Weakens relevance of design protection

4.5 Footnotes

[1] The patent owner also has a greater incentive to make investments to increase the value of the patent with less fear that the fruits of the investment will be appropriated by competitors. The foregoing arguments are developed in detail in Edmund W. Kitch, "The Nature and Function of the Patent System", The Journal of Law and Economics, vol. XX, October, 1977, pp. 265-291.

[2] Alderson, W., Terpstra and S. Shapiro, Patents and Progress, Homewood, Ill.: Richard D. Irwin, Inc., 1965.

[3] Given the absence of full and complete forward markets, it is recognized that opportunities to profit in this way may, in practice, be limited.

[4] Machlup, Fritz, An Economic Review of the Patent System, Study of the Sub-committee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, U.S. Senate, 58th Congress, Second Session, Study No. 15, Washington: U.S. Government Printing Office, 1958, p. 29.

[5] Silbertson, Aubrey, "The Impact of the Patent System on the Creation and Diffusion of New Knowledge", Omega, vol. 3, No. 4, 1975, pp. 9-22.

[6] Scherer, F.M., Industrial Organization and Economic Performance, New York: Rand McNally, 1970, and 1980.

[7] Whether or not a copyright should be voided by subsequent reproduction for industrial purposes is addressed in Chapter 2 of Part II.

[8] The present discussion leaves aside the practical and legal difficulties of implementing such a change.

[9] This phenomenon was cited in a number of interviews.

[10] The existence of market power is documented in Statistics Canada, Department Stores in Canada, Ottawa: Supply and Services Canada, 1979.

[11] It is unclear why the government has been such an active user of the design registration system but indications are that future government use of the registration system will be minimal.

[12] It is more likely, however, that copying will preempt the original designer's market.

[13] See National Design Council, Annual Report, 1975/75, p. 14.

[14] Ibid., p. 27.

[15] Bourgault, P.L., and H. Crookell, "Commercial Innovation in Secondary Industry", Prepared for the National Design Council Innovation Committee, March 5, 1979.

[16] The reasons are summarized in Table 4-2.

[17] Indeed, it is not at all clear how one could define the aesthetic dimensions of a product, let alone measure vertical innovations in aesthetic features.

[18] On this point, see Edwin Mansfield, The Economics of Technological Change, New York: W.W. Norton and Co., 1968.

[19] Of course, the current Act protects only the purely visual components of the new product.

[20] For example, Bell-Northern Research, the largest privately-owned R & D laboratory in Canada, has a separate design group that researches the aspects of new products that make them more aesthetically appealing to potential users.

[21] Table 4-4 reports the ten largest users of Canada's registered design system over the 1970's.

[22] An example of this sort of identification as applied to the computer industry, can be found in Robert Michaels, "Hedonic Prices and the Structure of the Digital Computer Industry", The Journal of Industrial Economics, vol. XXVII, March, 1979, pp. 263-275.

[23] This argument is developed in Kelvin Lancaster, "Socially Optimal Product Differentiation", American Economic Review, vol. LXL, September, 1975, pp. 567-585.

[24] The Herfindahl Index is formally defined as $H=\Sigma_{i=1}^{n} S_i^2$ where S_i is the i^{th} firm's share of total industry output.

[25] Concentration ratios are provided in Department of Consumer and Corporate Affairs, Concentration in the Manufacturing Industries of Canada, Ottawa: Information Canada, 1971.

[26] This description of the apparel industry is taken from Roy B. Helfgatt, "Women's and Children's Apparel", In Max Hall, ed., Made in New York, Cambridge: Harvard University Press, 1959.

[27] See, for example, David E. Bond and Ronald J. Wonnacott, Trade Liberalization and the Canadian Furniture Industry, Toronto: University of Toronto Press, 1968.

[28] See Kitch, op. cit.

[29] Gratwick, Stephen, "U.K. Design Copyright -- A Gilbertian Situation", Opinion - EIPR, August, 1980, pp. 243-245.

[30] Legal considerations for retaining some degree of design protection are contained in later chapters of this report.

[31] Machlup, op. cit., p. 80.

CHAPTER 5

SUMMARY AND POLICY RECOMMENDATIONS

5.1 Introduction

The task of this report has been to analyze and evaluate the industrial design registration system in Canada with a view toward making recommendations on its abolition, retention, or modification. To accomplish this task, we have adopted a theoretical framework which allowed some analytical exposition of the question of the optimal amount of product differentiation, a topic closely related to the optimal amount of design activity undertaken. We then focused what empirical evidence was available on the questions about Canadian markets which arose from that theoretical exercise. Unfortunately, data were not sufficient to address directly the most interesting questions, and we have been forced to rely extensively on analogy, conjecture and extrapolation from scanty facts. In this chapter, we will summarize the arguments and evidence of earlier chapters and proceed to recommendations based on the evidence and theoretical arguments presented earlier in the report.

5.2 Summary of the Arguments

The Industrial Design Act in its present form protects the visual aspects of registered designs from unauthorized copying. However, industrial design in general, as the discipline is commonly understood, encompasses activity relating to a wide variety of product features. Given its mandate to review the entire system, this report considers the effects of all possible changes in the degree of design protection. Possible changes are of several kinds: strengthening existing protection, weakening protection, including abolition of the Act, and, altering the Act to allow registration and protection of operational as well as visual design innovations. As part of the consideration of the possibility of abolishing the Act, the report also evaluates policies which might replace it in relation to the industrial design system.

The primary focus of the analysis has been on the overall effect of the Act as a whole, not on the question of marginal increases or decreses in the strength of the protection. The marginal considerations are generally implicit in the discussions of the overall issue.

We chose net social welfare as an overall standard to measure the impact of design innovations. We then proposed to develop models which would facilitate the evaluation of the effects of the proposed policy options on net social welfare. Since any design activity, visual or operational, clearly affects the nature of products offered in the market place, our model first showed how consumers choose products from among several with similar sets of characteristics. The model views the consumer as choosing some optimal mix of product characteristics, and the design activity as choosing which particular mix of characteristics to offer.

Within the context of that consumer choice model, we differentiated between vertical and horizontal product innovations. Vertical innovations are resource-saving; that is, they allow the consumer to obtain more of at least some characteristics without relinquishing others, for the same monetary expenditure. Horizontal innovations create new, differentiated products, without any concomitant savings in the resources needed to product the goods. While we were not able to say that all vertical innovations unambiguously increase social welfare, we did find that they would make a positive contribution in most cases. Horizontal innovations always contribute to consumer welfare by providing some consumers with desirable goods that had not previously been available to them. However, such innovations have both actual development costs and other potential cost effects by forcing producers of competing goods to reduce output below levels that allow them to take advantage of available economies of scale. Further, the increase in consumer welfare will be lower the greater the number of similar products already in the market. These then became empirical questions: Are those industries which are heavy users in Canada of the industrial design registration system likely to be characterized by economies of scale; Are they likely to have a wide variety of products already available?

Chapter 4 concentrated on answering as many as possible of these empirical questions. Most of the available evidence was indirect, or inconclusive, or both. However, several general conclusions can be drawn with reasonable safety. First, it does not appear likely that any change in the industrial design system can greatly influence the amount of industrial design activity undertaken in Canada. The patent system offers much stronger protection in a more clearly defined area of intellectual property, and extensive empirical studies have not been able to show any strong effect on technical innovation or on R & D leading to technical innovation. With weaker protection and in a less well-defined area, industrial design would not seem likely to be able to have a major impact on the amount of design activity. Supporting this view is the fact that other studies and public policy recommendations which concentrate on promotion of design in Canada do not mention the possibility of better legislative protection as relevant.

Second, it is also not clear that increased design activity, at least in those industries which are now heavy users of the industrial design system, would produce increases in net social welfare. Most of the user industries would appear to have at least enough product differentiation at present. This result arises from the fact that most user industries already have a wide product variety and at least some economies of scale.

With these general conclusions available, we can proceed to the analysis and recommendations in regard to individual suggested policies. The general conclusions will be reviewed as necessary for each consideration.

5.3 Marginal Strengthening or Weakening of Protection

The first question is whether or not there should be some marginal changes in the degree of protection. While this question was not directly introduced into most of the analysis, it can be answered fairly readily from the summary of conclusions just presented. First, it does not appear likely that marginal changes in the degree of protection would have much, if any, effect on the amount of industrial design activity in Canada. This follows from the conclusion that the entire system does not have a strong effect.

It is possible, of course, that some strengthening of the design protection could lead industries which are not now users of the system to undertake more design activity and to use the registration system. However, based on our analysis, this does not appear likely. The stronger protection could take two forms: longer period of monopoly, or a stronger monopoly, especially by making enforcement easier and quicker. Assuming (reasonably) that it is relatively easier to "design around" a registered design than it is to "invent around" a patent, a longer period of protection would probably not make much difference for most products nor would it attract new users. The present period probably covers the time until the protection could be circumvented in most cases.

However, an expedited legal system for seeking redress might be effective. The product cycle is so short for some items--seasonal goods, for example--that the lags in the present system make enforcing design protection all but impossible. The copyist could be a separately incorporated entity, and by the time any enforcement procedure could take effect, the copyist would have sold his goods and be beyond action by reason of having no remaining assets. If, therefore, the owner of a registered design could seek some more rapid relief--for example, rapid, enforceable injuctive relief against the sale of the alleged copy--the protection would be substantially strengthened.

We do not recommend such strengthening, for several reasons. First, our evidence does not indicate that it is likely to increase social welfare. We concluded in Chapter 4 that there is no apparent reason to encourage additional horizontal innovation in most of the industries which are extensive users of the design registration system. Strengthening the system in this way would probably induce exactly such additional horizontal innovation. This conclusion is based partly on the source of the complaints of the length of the delays in present enforcement procedures. They came primarily from producers of differentiated consumers' goods, exactly the sort of industries where additional innovation is likely to be horizontal and where additional horizontal differentiation is likely to be excessive. Further, an improved enforcement procedure alone is not likely to encourage additional vertical innovation, without other changes in the law to qualify such innovation for registration.

Implementing a much stronger enforcement procedure would also increase costs. With stronger enforcement, there would be higher costs of enforcement both for owners of designs and for alleged copiers. Further, injuctive power to act against alleged copiers could be used as a weapon to reduce legitimate competition. This would be especially true in those markets where participants now complain of inability to act; that is, where product life cycles are short. There, if the owner of a design could obtain injunctive relief against an alleged copier, the selling season would be over before the cases were finally adjudicated. Even if the cases were lost, the alleged copier would have been foreclosed from the market.

On the other hand, there is no apparent reason to decrease the amount of protection afforded under the Act. The period of protection could not reasonably be shortened, and, as noted, the enforcement procedures would not be at all workable if they were weakened.

In conclusion, then, we see no need to recommend marginal changes to the existing Act either in the direction of strengthening or in the direction of weakening the protection.

5.4 Changes in the Definition of Design

The second question of significance is whether the definition of the subject matter protected should be expanded.

The existing definition of only visual elements of designs as registrable has, in our terminology, biased the system towards protecting horizontal innovations. If the definition could be changed to incorporate operational innovations, then the industrial design system would be more likely to promote vertical innovations. One attempt to recommend such a change was made by the Economic Council of Canada in its Report.[1] The Council recommended that the registering agency be given additional discretion in determining which designs could be registrable. The criteria were to be that the design be "'new and innovative'", using a criterion similar to that for patents; and, that it be a "meritorious marriage of function and form."

If such a change could be made workable, it would probably be desirable. It would allow the system to focus on changes which would be more likely to improve net social welfare.[2] While the Council's specific proposal appears to remove design protection from purely visual innovations, that is not a necessary concomitant of the attempt to add protection to operational features. However, it does not seem likely that a change of this kind could be successful. The problems are both practical and legal.

Arriving at a satisfactory legal definition of a design is difficult enough when the definition is confined to visual aspects. The problem of producing a satisfactory definition of registrable operational aspects is evident. But without a more or less clear definition, the legislation would be unworkable. Potential registrants would be unable to determine their chances of success; potential copyists would be unable to determine their chances of escaping action from the design's owner. While some of this uncertainty would be reduced with longer experience of the new system, it would never be eliminated. The use of outside expert panels, as recommended by the Council, would probably not reduce the uncertainty much.

It is conceivable to attempt to extend design registration to all operational innovations, without forcing a value judgement by the registering body. This would probably not be feasible. There would still need to be a determination made that the design was "new". The registering body would also have to decide what portion of the design was "new enough" to warrant protection. The problems seem obvious.

Even if these initial problems could be resolved, it is not at all clear that the ability to register operational innovations would promote much more such innovation. Many operational innovations are eligible for patent protection, and those innovators who want protection would generally choose to apply for patents. Innovations which are not patentable might still be refused design protection under the Economic Council's proposed system. However, like all innovations, some of the value of the innovation would still be protected by virtue of the innovator's technological and production lead over potential imitators. Referring to the conclusions of Chapter 4, it still would not appear that this sort of change to the Act would have much effect on the total of industrial design activity in Canada. However, this lack of effect is not the main criticism of this proposal, since almost any effect it would have seems bound to increase net social welfare. Rather, the chief criticism is that the proposal would probably not be legally workable, either in the form proposed by the Council or in any other similar legal form.

5.5 Abolition of the Industrial Design Act

The third key question is whether or not the statute should be abandoned.

This option is, in principle, one of the simplest to analyze. If the total net effect of the entire design registration system is negative then it should simply be abolished. Of course, as we have seen, the direction of the net effect is not at all clear.

The considerations relevant to abolition of the Act fall into several categories. First, the lack of industrial design protection does not mean that all designs will be unprotected against copying; both institutional market factors and other intellectual property laws will provide some measures of assurance to an innovator that he will be able to obtain some returns from his innovation. Second, as we have repeatedly said, it is very hard to discern what effect, if any, the removal of design protection might have on the total of design activity in Canada. Further, it is also hard to determine the effect on net social welfare of less product differentiation, which might be the one result of abolition of the Act. Finally, the abolition of the Act raises some other problems, both internally to Canada and internationally. The internal problem is that the courts may begin to grant copyright or other more restrictive protection to designs which seem to them to be original but which are no longer directly protected as designs. The external problem is that, without industrial design protection of its own, Canada might well deprive its innovators of similar protection for sale of their products abroad. We elaborate on these reasons below.

Other Protection Available

First, much of the innovation work which we could describe as vertical or operational innovations might be eligible for other kinds of legal protection. Designs with strong operational features can be patented. Graphic designs can receive copyright protection if the designer represents that he does not intend to make more than 50 copies. And, as the Economic Council of Canada noted, some designs can, by being strongly identified with one seller, become "distinguishing guises," and eligible for protection as trademarks. However, for the majority of designs which were formerly registered, there would probably be no legal protection of any kind.

Second, market conditions would still produce a degree of monopoly power for innovative designs. In most cases, there is a substantial time lag before truly new designs or concepts can be imitated. Even after imitations are on the market, consumers (through the use of trademarks) can distinguish between the product of the original innovator and those of the imitators. Where the original design is in fact a major improvement, and where it does combine visual with operational innovation in a way that is appealing to a large number of consumers, then in many cases imitators will not be able successfully to copy all the relevant aspects of the design. The original product and that of imitators will be distinguishable functionally, and consumers will continue to seek out the better product offered by the originator. Of course, imitators could improve on the original design, causing consumers to seek out their products. That kind of success would normally come only as a result of a significant design effort by the imitator. The imitator's new product is itself then a vertical innovation which the system should encourage.

The inventors of such major product innovations probably do not look to the industrial design system for protection of their rights. Either the innovation is patentable and patented, or they rely on the inability of their competitors to match their product and marketing ability. The data in Table 4-3 show that most of the registrations come from industries producing differentiated consumer products, like toys, furniture, and other household items. The only consistent users of design registration which might represent vertical innovators are communications equipment and measuring instruments, but even their registered designs are probably horizontal innovations like new decorative designs for the outside of telephone receiver sets. In summary, significant vertical innovations would be protected from instant imitation even without an industrial design registration system. However, many minor new products would not be protected, and some might not be marketed without protection.

International Reciprocity

A potentially serious problem is that, without protection in Canada for industrial designs, Canadian designs would not be eligible for protection in other countries. Canadian innovators would have to face competition in both domestic and foreign markets from copiers all over the world. This could affect manufacturers of products where differentiation is important, especially those where copying is easy and the markets are expected to last for longer time periods. Many of the complaints which are reported in the press are related to foreign copying of a design. Obtaining redress from foreign copiers is difficult under present law, and the abolition of the Act would leave Canadian innovators at a disadvantage in international markets. It would probably not provide much opportunity for Canadian firms to become imitators themselves, since most such imitations rely on relatively cheap foreign labour to allow them to underprice the original.

There is no way to quantify this problem. We do not have data on the number of foreign copies which now occur and we do not know how serious the potential problem would be. Major innovations would be protected from foreign copiers by the same factors that protect them from domestic copiers. However, it is possible that the markets of some Canadian-designed products will be reduced for Canadians by removal of the international protection.

Legal Effects

If industrial design protection were removed, innovators would more avidly seek other forms of intellectual property protection. A problem could arise from judicial notions of fairness. Where an innovator applied for copyright protection, for example, of a design which would have been eligible for design registration, the judiciary might grant protection on the grounds that the innovator is entitled to it. A similar argument might be made for trademark protection, or potentially for some easing of the criteria for granting of patents.[3] In any of these cases, the consequences would be a substantial increase in the degree of protection. Copyrights apply for the life of the author plus

50 years. Instead of a relatively weak design protection that lasts for 10 years at most, the innovator could obtain much stronger and longer protection under such a decision.

It is unlikely that the possibly availability of copyright protection would make much of a difference in the amount of industrial design activity in Canada. It would be impossible for a designer to know in advance whether he might be granted such protection, a factor which reduces its incentive value. We have already concluded that the total of design activity is probably not sensitive to the degree of intellectual property protection. The positive effects of the stronger protection, then, are minimal. But the negative effects could be substantial, given the much longer period of protection and the strong enforcement provisions. Insofar as this is a real and major risk, these legal considerations argue against eliminating the industrial design protection system.

Net Welfare Effects

Using our overall criterion of net social welfare effects, we also cannot make a case for any change in the system. While we have found that those industries which are heavy users of industrial design registration probably should not be encouraged in further product differentiation, we have not found strong evidence that they have excessive differentiation. Further, even if there is excessive differentiation, there is evidence that this is not caused by the industrial design registration system. Within the industries that are heavy users of design registration, only a few firms use the system at all. Their competitors tend not to register any designs. If the registrant firms had an excessive number of products, so that they were producing each at inefficiently low levels of output, then an efficient competitor could, by offering a smaller product line at lower cost, increase its market share. That has not happened. Instead, the competitors appear to offer a product line similar in depth to those of the heavy registrants; they just do not use the industrial design system to protect their products. Without much more information about the supply and demand conditions in the relevant industries, we cannot say whether the amount of product differentiation is excessive. However, we can say that, because some of the competitors do not use the design registration system, any excessive product proliferation which does exist would take place with or without a design registration system. In other words, the abolition of the design registration system would not produce a large increase in total welfare by reducing any costs of excessive differentiation.

There also are no substantial direct cost savings to be made by abolition of the system. The costs of the registry system are borne directly by the registrants, and indirectly by the consumers of the differentiated products, who are willing to bear them. In any case, the costs of the entire system, including registry and enforcement, were seen in Chapter 4 to be nominal.

Finally, we have already concluded that the abolition of the industrial design registration system would probably not affect the amount of vertical product innovation very much. However, any effect it would have would be negative.

Summary

We find no evidence of significant benefit from the abolition of the industrial design system. We also find no evidence that its elimination would entail significant costs. There is some danger, however, that the judiciary could impose substantial increased costs in an attempt to compensate innovators if design protection were unavailable. In consequence of this, and in keeping with Machlup's statement that, in the absence of strong arguments in favour of a policy change the best policy is no change,[4] we recommend no change in the industrial design system.

5.6 Possible Substitutes or Supplements

If the intention of the registered industrial design system is to promote good design in Canada, then the existing system might very well be inefficient. Other policies could be more effective in promoting vertical or other desirable design innovations, using no more resources. For example, perhaps the most efficient way to promote vertical innovation (assuming that it can be identified) is to subsidize it directly. That would mean subsidies for designers or prizes for good designs. It could also mean subsidies for the education of designers. Any of these policies might be more efficient in the promotion of design than the relatively indirect policy of allowing the registration of all completed designs, without regard to their quality.

If there were substantial resources expended to maintain the present system, their transfer to the direct support of industrial design might very well be a much more efficient procedure. However, the total resources used are small, and those available for transfer to other uses smaller. The registration system pays for itself, and the registration fees would not be available for public expenditure in the absence of the design system. Private enforcement fees would also not be directly available either for public expenditure or for promotion of good design. Individual firms might well apply any monies saved on enforcement expenditures directly to increased design activity, in an attempt to create designs which are not easily copied.

However, the total of resources available for direct transfer to increased design activity is minimal. There is probably only about $1,000,000 per year, which is small when spread across the estimated 2,000 to 3,000 people actively engaged in design. In consequence, it is unlikely that the resources currently used for the industrial design registration system could be more effectively employed direct subsidies or grants to foster good design.

5.7 Conclusion

This part of the study has attempted to perform a thorough economic review of the industrial design registration system in Canada. It has analyzed and evaluated the likely effects of several possible changes to the Industrial Design Act and to other parts of the system. While its theoretical analysis was able to point to a number of crucial empirical questions, data simply were not available to answer any of them directly.

Given the complexity of the industrial design systme and its interactions with other policy areas, and given the lack if data on almost every aspect of the system, it is not surprising that the data we do have fail to make a persuasive case in the direction of any policy change.

In the absence of firm indications in any direction, we conclude that the industrial design registration system probably does little, if any, harm, and may do some good. Therefore, it is best to leave it in place, since that action represents no change in existing policy.

Finally, as a postscript, unlike many economists, we do not think that a search for or collection of vast amounts of good data, to be followed by even more research, would alter our key decisions and proposals.

5.8 Footnotes

1 Economic Council of Canada, Report on Intellectual and Industrial Property, Ottawa: Information Canada, 1971

2 In fact, the Council's recommendation included an explict test that the innovation 'improve substantially' consumer welfare." (Ibid., p. 122).

3 The effect on patent applications would probably not be large, because most patentable innovations are already being patented. However, the effect of copyright protection, as some other common law jurisdications have allowed, would be great. See the discussion in Chapter on this point.

4 Fritz Machlup, An Economic Review of the Patent System, Study of the Sub-committee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, U.S. Senate, 58 Cong., 2 Sess., Study #15, Washington: U.S. Government Printing Office, 1958.

PART II

INDUSTRIAL DESIGN: LEGAL AND ADMINISTRATIVE ISSUES

PART II

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NOTE TO READERS

The following part of this report examines the legal and administrative aspects of Canada's industrial design policy as embodied in the Industrial Design Act and related cases. The text was prepared by Professor Denis Magnusson who is now Dean of the Faculty of Law at Queen's University, Kingston Ontario, Canada.

Please note that the page numbers for this part of the report are independent of those for Part I, the economic analysis. Footnotes are at the end of each chapter.

CHAPTER 1

INTRODUCTION

A. Introduction

Our analysis above has indicated that we have not been able to recommend any substantial changes in current industrial design policies. However, a number of changes are needed in the present system in order to clarify the existing law and to ensure that the system in operation gives effect to the policies outlined above.

This Chapter indicates a number of areas of the present system in which problems have arisen and makes recommendations concerning the amendment of the present law in those areas. However, before dealing with industrial design law itself we briefly describe the nature of the other major intellectual property systems, *i.e.*, patents, trademarks and copyright, particularly for those readers who may not be familiar with them. We believe it is necessary to have some grasp of these other systems in order to understand the following discussions of the industrial design system itself and of its relationship to each of these other systems.

B. Other Intellectual Property

Patents

The subject matter of a patent is an "invention", that is a technological advance in a material form such as a product, machine, or a chemical or mechanical process. Mere ideas, scientific principles, and theories are not considered to be proper subject matter for a patent.

In addition, in order to be patentable, an invention must meet three fundamental tests:

1. "Utility" which means that the invention must serve a useful purpose. This would not include being decorative or appealing to the aesthetic sense.
2. "Novelty" which indicates that the invention must be new. This is a narrow concept of new - the essentially identical thing must not have existed (anywhere, by Canadian law) before the alleged invention was made.
3. "Inventive Step" which requires that the invention, in addition to being new in the sense just described, must also reflect an inventive advance over the prior art.

> An inventive advance is one that would not have been "obvious to one skilled in the art" at the time the invention was made.

Justification for the requirement of an inventive step in a patent system is sometimes offered through a so-called "consideration" theory. This theory states that since the granting of a monopoly in the invention to the patentee is costly for society, society should demand a significant contribution (consideration) from the inventor in return. It is suggested that there would not be an adequate contribution in the form of something simply new (and obvious) from the inventor and that society should demand something inventive as well as new in return for the monopoly. This kind of contribution is seen as especially important since the monopoly granted by a patent applies to some useful aspect of technology and not merely to some form of expression or decorative element.

Finally, it should be noted that a patent gives a full monopoly in the invention itself and precludes everyone but the inventor from "making, using or selling" the invention (without the inventor's consent), whether they have copied, or independently invented the invention themselves.

Copyright

The subject matter of copyright is limited to certain types of "works" including artistic, literary, dramatic, and musical works.

In order to qualify for protection a work must be "original". This appears to mean that the work must be the product of some minimum (probably quite small) amount of intellectual labour on the part of the author. In addition the originality requirement means that the work must not be copied from an existing work. Note that originality in copyright law does not appear to involve any requirement of "novelty" as found in patent law. If a work involves the requisite minimum amount of labour by the author and it has not been copied, the fact that it is identical to a pre-existing work will not preclude the second work from copyright protection. Of course, the fact that such a work has such a perfect substitute as a competitor may greatly reduce the economic value of such a copyright.

The scope of the monopoly granted under copyright is much more restricted than under patent law. First, the subject matter of the monopoly is only the mode or form of expression, and not the underlying content or ideas. Second, the exclusive rights granted to the copyright owner are basically: (i) the right to publish an unpublished work, and (ii) the right to copy the work in various forms. Note that the latter right does not affect efforts which create similar or even identical works which are not a result of copying the first work.

We might refer again to the consideration theory, from patent law, in this context for comparison. Since the monopoly rights granted to the copyright owner are fairly restricted, it can be argued that society does not demand a substantial contribution (neither new, nor inventive) from the copyright owner in return.

Trademarks

Trademarks are devices (words, symbols or even entire modes of packaging) which distinguish goods or services put on the market by one particular trader from similar goods or services put on the market by all other traders.

It is generally said that the function of a trademark is to identify the trade "source" of the particular goods or services with which it is properly used. While there is some qualification necessary to the following statement in the light of the current Canadian law, it is still essentially true that one does not acquire trademark rights by "inventing" or "creating" the mark (i.e., designing the symbol), but rather by being the first to adopt and to use the mark as a trademark.

While again the statement whould need some specific qualification, it is generally true that the rights that the trademark owner acquires are to prevent others from using his mark as a trademark, i.e., where the infringer uses the mark in conjunction with goods or services that do not originate with the trademark owner, and which use has the effect of deceiving consumers into believing that the goods or services do originate with the trademark owner.

Since trademarks do not reflect an inventive or creative contribution to society, the "consideration" theory is not usually applied to the the trademarks system. Rather the system is seen as recognizing the trader's right to be free of "unfair" (deceptive) competition, which will in turn also serve the interests of consumers who will be able to chose effectively between competing sources of similar goods and services.

C. Introduction to the Present Industrial Design Statute

The present Industrial Design Act[1] originated in legislation in 1868 and has not undergone a systematic revision since that time.[2] The statute has been frequently condemned as an unworkable and virtually unintelligible piece of legal draftsmanship.[3] Consequently, it is often difficult to give satisfactory answers to basic questions about the current state of industrial design protection simply by reference to the present statute. Perhaps as a result Canadian courts and the Industrial Design Office have frequently resorted to the more clearly drafted British statute and the cases interpreting it in order to give meaning to the Canadian legislation. As a result our present industrial design system in operation resembles in many important respects the present British system under the U.K. Registered Designs Act 1949 although the Canadian legislation was not in fact modelled on the British statute.

D. Subject Matter of Industrial Design

1. Definition of "Industrial Design"

The Industrial Design Act does not contain a definition of "industrial design". However an analysis of the judicial treatment[4] of the Canadian act suggests that the courts have adopted a working definition of industrial design which is quite similar to that found in the British Registered Designs Act 1949,[5] s.1(3):

> "'Design' means features of shape, configuration, pattern or ornament applied to an article by any industrial process or means, being features which in the finished article appeal to and are judged solely by the eye, but does not include a method or principle of construction or features of shape or configuration which are dictated solely by the function which the article to be made in that shape or configuration has to perform."

Several aspects of the above definition which appear to reflect the current state of Canadian law as to the meaning of industrial design ought to be noted. An industrial design is found in features which "appeal to the eye and are judged solely by the eye," i.e., the design is found in the visual appeal and not, for example, in underlying methods of construction. Also, the design is "applied to a manufactured article." Thus it is not some design in isolation which is protected but rather the design as applied to a manufactured article. Note also that the design is not the article itself but rather something applied to the article for the purpose of making the article's appearance more attractive.[6]

In applying the latter concept some Canadian courts had difficulty accepting that the shape or configuration of an article could be merely ornamentation applied to an article and so be protected as an industrial design. However, by 1964 it had been held that shape or configuration applied to the ornamenting of a manufactured article was registrable under the Canadian industrial design legislation.[7] Consequently it is possible to classify protectable designs into two categories: (i) two dimensional patterns applied to the surfaces of articles, and (ii) three dimensional shapes for articles or parts of articles.

Once it is accepted that shape or configuration can be protected as industrial design, the relationship between design protection and the functional or operational features of the article as designed must be considered.[8] Below we discuss a particularly important, and difficult aspect of defining protected industrial designs--the exclusion of operational or functional features of a design for an article.

2. "Operational" Features Excluded

(a) Meaning of "Operational"

In this discussion when referring to the "operational" aspects of a design for an article we are referring to all useful features of the design other than the aesthetic aspects.

The reference is intended to include both:

(i) features of an article which embody some mode, principle or process of construction or manufacture of the article, and

(ii) features of the article which are necessary to, or contribute to, the article performing the functions it is intended to perform in use.

(b) Present Law

Above we noted that the non-legal concept of industrial design is a broad one incorporating aesthetic, functional and structural aspects of manufactured products.[9] However, we also noted[10] that under present Canadian law, as illustrated by the references above to the British statute definition of design, the concept of industrial design is far more narrowly defined. In particular, industrial design is limited under the law to the ornamental aspects of a manufactured product and excludes aspects of design dictated by the functions the product is to perform or by the methods of production or principles of construction of the products.

The Canadian Patent Appeal Board has described the present Canadian law on the exclusion of functional aspects from the definition of registrable designs as follows:

> "...a design for a device which is solely functional, whose function can only be performed by the design in question, or whose only object is to perform that functional purpose, is not registrable. But a design for a functional device may be registered if it does not embrace every conceivable configuration for performing that function, and it also satisfies the additional object of creating a visual appeal readily discernable to the eye of the beholder."[11]

Canadian courts have cited with approval British decisions which hold that an industrial design cannot include a method of principle of construction.[12]

(c) Should Operational Features Be Excluded From Protection as Industrial Design?

(i) Arguments for Not Excluding Operational Features

The exclusion of operational features from protection as industrial design that is now a part of Canadian and other countries' design law has come under attack. At least three arguments have been advanced to support the extention of industrial design protection so that it would include operational product design innovations.

One such argument is that discussed above,[13] where we noted that operational innovations are more likely than mere visual innovations to reflect resource-saving vertical innovations which in turn are more likely to increase welfare. There we referred to the recommendations of the Economic Council of Canada that the industrial design legislation be amended so that it did not protect designs which were "mere superficial ornamentation or'gimmickry'," but rather those which were "a meritorious marriage of both function and form likely to improve substantially 'consumer welfare'."[14]

A second argument in favour of including operational elements within the protection of the industrial design system is that it can be very difficult in many cases to distinguish between the visual and operational aspects of a design.[15] It has been suggested that this problem is more acute in the instances of what some view as the best of contemporary designs, i.e., those which reflect a union of form and function as opposed to representing mere superficial ornamentation. It is suggested that in some cases it is either impossible to distinguish the operational from the visual features of designs or the administrative costs of doing so outweigh any advantages in making such a distinction.[16]

The final argument for incuding operational elements within industrial design protection is an appeal for fairness of treatment of the designers and proprietors of such designs. In particular it has been suggested that it is invidious that copyright protection be available for literary or musical works that may have no claim to literary or musical merit, but that industrial design or other intellectual property protection be denied to designs, because they include operational features, which have no lesser, and for some such designs a far greater, claim to artistic merit.[17]

In the following section we indicate why the above arguments have not persuaded us that Canadian industrial design protection ought to be extended to include operational as well as visual elements of designs.

(ii) Reasons for Excluding Operational Features

In considering the possible extension of industrial design protection to the operational features of designs it should be noted that there are at least two different ways in which it may be suggested that such an extension should be made. First, operational features could be explicitly included as part of the protected subject matter of industrial design. Under such as approach design law would be altered so that it protected, or protected only, those designs which represented both visual and operational innovations.[18] The second possible approach to the extension of the industrial design system to operational features would be not to include expressly operational features within the subject matter of design protection, but not to exclude operational features expressly either. Under the latter approach a protectable design must reflect a visual innovation but need not reflect any operational innovation. The theory behind this second approach is that the purpose of design protection is to protect and to stimulate innovations solely in the visual aspects of design. However, it is argued, given the difficulty or impossibility in many cases of separating the visual and the operational aspects of a design, the practical effect of expressly excluding the operational features is that design protection will be denied to such designs. Consequently, to avoid this result it is argued that the industrial design law should not expressly exclude operational aspects of designs from the subject matter of protection.[19]

The first approach to extending the industrial design system to operational innovations, i.e., permitting or requiring a combined visual and operational innovation as the subject matter for protection, is unnecessary and undesirable because it would duplicate the protection provided by the patent system. As described above[20] the patent system provides protection for inventions which are useful advances in technology in the form of new or improved articles of use, or new or improved methods of producing useful articles. Thus the subject matter of the patent system overlaps entirely the types of operational aspects of designs that might be included within such an extended industrial designs system.

One method of distinguishing such an extended industrial design system from the patent system would be to reduce the minimum requirements for protection under such a designs system relative to the requirements of the patent system. In particular the requirement of an inventive step might not be included in the design system, or reduced relative to that required under the patent system. Given the relatively modest inventive step requirement in the present Canadian patent system,[21] we cannot accept that the need for, or utility of such a modification of the industrial design system can be demonstrated.

The second approach to the extension of the industrial design system to operational features, i.e., the lack of exclusion of such features from protectable designs, does not have the advantage of directly promoting operational innovations, since operational innovation would not be prerequisite for protection, as does the first approach. Consequently, the second approach cannot be seen as advantageous because of its direct promotion of operational innovations which tend to reflect resource-saving vertical innovations which are generally more likely to increase consumer welfare than mere visual innovations.

In addition to not having the advantage of directly promoting resource-saving vertical innovations this latter approach has a serious potential disadvantage. Any industrial design system which protects the visual aspects of designs without expressly excluding from protection the operational aspects will have the practical result in many cases of protecting the operational aspects as well as the visual aspects as being within the exclusive rights of the industrial design proprietor. In relation to some operational features of articles there may be a very limited range of forms that those features can take.[22] Consequently, a protected design for the appearance of one mode of serving some functional purpose may give a practical monopoly over all modes of carrying out that function. This is particularly true if the industrial design law provides, as does the present Canadian law and as we recommend below the law should continue to do, that infringement occurs not only when the exact appearance which is the protected design is taken by an infringer, but also when the appearance is substantially, although not exactly, taken.[23]

This indirect extension of protection to operational features is objectionable on two grounds. First, it takes place in a context in which no express statutory criteria have been set to identify those operational features of designs which ought to receive protection. There would be, for example, no express standards of novelty and inventive step such as appear in the patent law applicable to the operational features so protected. Second, even if such standards were implied by the courts this approach would be subject to the same criticism as the first approach above, that is it would be unnecessarily duplicative of the patent system.

Some court decisions appear to indicate a sensitivity to the problem of indirectly permitting monopolization of operational features through the protection of design appearance. These cases may indicate a willingness to adjust the concept of infringement as a "substantial" taking of the design in the particular case to reduce or eliminate such a possibility.[24] However, these cases occur in the context of applying law which expressly excludes operational features from the subject matter of a protectable design. Whether the courts would, or could, demonstrate the same sensitivity in the face of legislation which did not exclude operational aspects from protectable designs is not clear.[25] In any event we do not believe it wise to rely exclusively on such judicial sensitivity, unguided by explicit statutory direction, to avoid the indirect monopolization of operational features through design protection.

There is a further observation to be made concerning the assessment of the desirability of extending the industrial design system to operational features of designs. The observation applies particularly to a proposed extension of the first type suggested above, i.e., where operational innovations are explicitly made a part of the subject matter of protected designs. However, it also applies to the second type of extension where it would result in *de facto* if not *de jure* protection of operational features.

Under any industrial property system involving the granting of protection to individual applications on the basis of criteria of qualification for protection, there is a substantial risk that protection will be granted to subject matter that is not qualified for that protection.[26] In the case of industrial designs, e.g., protection may be granted to designs which are not in fact novel or original.[27] The granting of such invalid monopolies imposes an unfair burden on industry and real costs on consumers. We believe that the adverse effect of the granting of such invalid monopolies may be particularly costly where the monopolies relate to operational and not merely visual aspects of manufactured articles. The prospect of such potential adverse effects confirms the wisdom of not extending the scope of protection of the industrial design system unless a clear need for, and advantage in, such extension can be demonstrated. As we noted, the potential overlap with the patent system in particular, indicates that there is no clear need or advantage in extending the application of the industrial design system to operational aspects of designs.

Finally we note that we draw some support for our conclusion that the industrial design system ought not to be extended to protect, directly or indirectly, operational features from the fact that Canadian and foreign laws and law reform studies have recognized such extention as a problem.[28] However the legislation of the Nordic countries does protect designs as the appearances of products but regardless of whether, and the extend to which, that appearance has an operational purpose.[29] Nevertheless we have not been persuaded on the basis of the material available to us on the Nordic approach that it would provide a satisfactory answer to the objections stated above to the possibility of de facto monopolization of operational features of manufactured products through protection granted to industrial designs without specific qualifications in the law excluding protection for such operational features.[30]

Consequently, it is recommended that the Canadian industrial design system should protect only the appearance features of designs for utilitarian articles and should exclude from protection operational features of designs for such articles.

(d) Where Should the Exclusion of Operational Features Appear in the Statute: In the Definition of Protectable Designs or as an Exclusion to the Definition of Infringement?

(i) Introduction

There is a choice to be made as to the placement in the statute of the exclusion of operational features from industrial design protection:

(a) The exclusion could appear in the definition of protectable subject matter under the statute. This approach is taken under the present Canadian law[31] and that of several other countries, e.g., Britain.[32]

(b) The exclusion could appear as an exception from the definition of what constitutes infringement.[33]

Proposals made concerning the placement of the exclusion of operational features have recommended that it ought to appear not in the definition of protectable subject matter and only in the definition of infringement.

(ii) Arguments For Inclusion in the Definition of Subject Matter

The major argument for including the exclusion within the definition of protectable subject matter and not placing it only in the definition of infringement is that doing so would in fact operate as to give some protection to the operational elements it was intended to exclude. The very existence of a registration of a design, which on its face would not distinguish between operational and aesthetic elements, would tend to intimidate and discourage would-be users of the operational aspects. This intimidation factor would be present notwithstanding the fact that the would-be user of the operational elements was fully informed that he had a defence in law based on his taking the operational elements. The costs of establishing this defence in threatened litigation, particularly in the light of the particular difficulties presented in making the distinction between operational and aesthetic elements, might well induce many would-be users of the operational elements to abandon their claims or to settle for a licence from the proprietor of the design. The Ilsley Royal Commission argued that it is unreasonable to place the burden and costs of distinguishing the operational elements, as opposed to the aesthetic elements, upon persons other than design proprietors who wish to use the operational elements.[34] Further, it may be suggested that the problem could not be dealt with adequately by placing the legal burden to establish that the appearance elements, and not merely the operational elements, were being taken on the design proprietor in each infringement action.

While this might reduce the "intimidation" factor inherent in such design registrations to some degree, it might well be that a significant amount of that factor would remain.

(iii) Arguments for Not Including in the Definition of Subject Matter

The main argument against including the exclusion of operational features in the definition of subject matter is that doing so, particularly if the exlcusion is a broad one, runs the risk of largely excluding from any chance of protection under the statute those designs which constitute a marriage of form and function. Further, it may be argued that it is more difficult, and yields more uncertain results, to apply the exclusion of functional features exclusively in the context of considering the design for which protection is sought, as would occur with the exclusion in the definition of protectable subject matter. It is suggested that the exclusion becomes more comprehensible, and yields fairer and more predictable results when applied in the context of a specific alleged infringing design with which the protected design can be compared, as will occur when the exclusion is considered as a part of the concept of infringement.

It should be noted that those who support including the exclusion within the definition of subject matter may respond that they do not believe that a design statute, which effectively excluded functional elements from the definition of infringement, would provide effective protection for those designs which could not be protected under a statute which excluded functional elements from the definition of protectable designs. If the essence of such designs is the inseparable combnation of function and form, it may be suggested that one cannot take the function without also taking the form.[35] If functional elements are not to be indirectly protected through the protection of appearance, an effective exclusion of protection for functional elements contained in the definition of infringement must provide, it will be further argued, that where it is necessary to copy the appearance elements of the design in order to copy the functional elements, such copying of the appearance elements is not infringement. Therefore, it will be suggested, in the case of a design where the appearance and functional elements are truly indissoluable, there would be no effective protection for the design under a system which had an adequate exclusion of operational elements in the definition of infringement any more than under a system which had such an exclusion in the definition of protectable subject matter.

(iv) Recommendation

The arguments for the inclusion of an exclusion of operational elements in the definition of industrial design indicate that some form of reasonably effective exclusion ought to appear in that definition. However, particularly in the light of the subtlety and difficulty often presented by the form-of-appearance/functional-element dichotomy,[36] it is also clear that there are risks of totally excluding many designs from any chance of protection if a very sweeping exclusion of functional elements is introduced into that definition. Consequently, it is recommended that a more limited exclusion of operational elements be included in the definition of "industrial design," and to ensure that such elements are fully excluded from protection under the revised statute it is recommended that a broader exclusion of functional features appear in the definition of what constitutes infringement.

(e) Scope of the Exclusion of Operational Aspects from Design Protection

(i) Introduction

In this section the appropriate scope of the exclusions of operational features, both in the definition of industrial design and in the definition of infringement are considered. In reference to the exclusion in the definition of industrial design both the implicit exclusion of operational features inherent in the positive requirements that an industrial design be features of appearance of useful articles, and that such features of appearance have an ornamental purpose, as well as the explicit exclusion of operational features through an express negative exclusion of such features are noted.

(ii) Industrial Design as Solely the Appearance of Useful Articles

The design laws of most countries that have been examined define the subject matter of design protection as the appearance of useful articles. The British statute, for example, defines design as features of shape or pattern applied to an article, "...being features in the finished article appeal to and are judged solely by the eye..."[37] The effect of such a definition when applied by the courts can be an implied exclusion of operational features because they are features not judged solely by the eye.[38]

However, the effectiveness of an implied exclusion of operational features based on a definition of industrial design subject matter as solely the appearance of utilitarian articles is unclear. There are two views which could be taken of the effect of such a definition. First, it could be said that such a definition would mean that in a case in which the utilitarian article could not be made to perform its intended function as efficiently unless the article were given the appearance of the design in question, the design could not be protected because to do so would result in effective protection for more than the mere appearance of the article.[39] On the other hand, in such a case it might be said that what had been registered under the design statute, and what in fact was protected by that statute, was merely the appearance of the article so embodied in the particular design. Any practical effect of protecting the more efficient mode of achieving a functional result such as that noted could be dismissed as merely incidental and outside the scope of the "legal" (although not practical) protection offered by the statute and so irrelevant to a consideration of whether the design in question was proper subject matter.[40] Further in this regard it might be observed that all utilitarian articles have an appearance, and that appearance can be protected, even under the formula of "solely the appearance," even though the appearance is caused or dictated by functional considerations.

It is recommended that the revised Canadian industrial design statute contain a definition of protected subject matter (i.e., of "industrial design")which indicates that it constitutes solely the appearance of a utilitarian article. Such a definition will at least prevent explicit descriptions and claims for non-appearance features of utilitarian articles from constituting protected subject matter. In addition, depending on the interpretation such as provision receives, it may play some role in preventing the indirect protection of operational features through the protection of appearance features.

(iii) The Requirement of an Ornamental Character

The further question arises as to whether the definition of protectable subject matter ought to provide that the design must be made with the intent of being directed to the aesthetic sense.[41] In the section of this paper below on the relationship between industrial design and copyright it is observed that, at least for the purpose delineating the scope of intellectual property, it is possible to distinguish between simply directing a work at the sense of aesthetic appreciation, and making a work which has a positive appeal to such a sense.[42] It is not recommended that the definition of protectable subject matter require that there be a positive appeal to the aesthetic senses, i.e., that in aesthetic terms the design be "good" design as opposed to "bad" design. The courts have rightly rejected taking upon themselves making judgments as to what is "good" art as opposed to "bad" art, as inappropriate, if not impossible.[43]

However, it is a different, and appropriate question, to ask whether an alleged industrial design for which protection is being sought is a work of an ornamental character, as opposed to a purely functional character, for example. A requirement that an industrial design be of an ornamental character to qualify for protection under the statute can play a role in specific cases in excluding highly functional designs from protection under the design statute.[44] It can also indicate to courts, and others, the general nature of protected subject matter under the statute and properly influence the interpretation and application of the industrial design statute as a whole.

The Ilsley Royal Commision rejected as "quite impracticable" any requirement that an industrial design "appeal to the aesthetic sense."[45] It would appear that the Commission was much influenced by the analysis of the U.S. experience by Walton Hamilton, in which the judicial treatment of the U.S. design patent requirement that a design be an "ornamental design" is considered.[46] Hamilton's analysis shows that some U.S. courts have interpreted the "ornamental" requirement as one that the design be beautiful.[47] However, other courts have limited the requirement to simply one that the design give to the article to which it is applied, "...a peculiar or distinctive appearance."[48] An analysis of the U.S. experience is persuasive that the tendency of the courts to interpret the requirement of ornamentation as one of beauty is in very large part attributable to the additional requirement in U.S. law that the design be inventive. Particularly in the light of the apparently stringent requirement of inventiveness articulated by some U.S. courts in the 1940's and 1950's,[49] it is not difficult to see how some courts could conclude that the only way in which a design could be inventively ornamental would be for it to be beautiful, as opposed to having a merely different or distinctive appearance.[50]

It is not recommended that there be a requirement of inventive step for protection under the revised Canadian industrial design statute, consequently the difficulty of interpretation encountered by the U.S. courts should not arise. Further we note that Hamilton in his analysis concluded that the appropriate criterion is that the design be directed toward giving the article a "distinctive" appearance. However, Hamilton makes that recommendation in the context of arguing that there ought to be a requirement of substantial novelty relative to the relevant prior design art to qualify for protection.[51] Below it is recommended, based largely on the demonstrated workableness of the novely standard, that there be no requirement of novelty to qualify for protection but only a requirement of originality.[52] Consequently, "distinctiveness" of appearance in the sense of novelty of appearance would not be a part of the concept of industrial design in the proposed legislation. Therefore, it is particularly important that the definition of protectable subject matter in the new statute stress that it is features of appearance of utilitarian articles which are present with the purpose or effect solely of making the article attractive, special or distinctive in appearance that are to be protected under the legislation. The experience of the U.K. in relation to the extension of copyright protection to highly functional designs as artistic works, in the context of a denial that such works need have any artistic character,[53] confirms the wisdom of the inclusion of a requirement of an ornamental character in the definition of industrial design in the revised legislation.

The requirement of an ornamental character would not operate in itself as a major barrier to the protection of functional designs. The proposed test is intended to be a minimal one, however, it should function to exclude some purely functional designs from protection. Its critical role would be as an indicator of the fundamental nature of the industrial design system, and as a guardian against fundamental misinterpretation of the statute through its application to protect operational aspects of designs.

The proposed but not enacted Design Protection Act of 1980 in the U.S. has a requirement that a design be "ornamental" and further states, "A design is 'ornamental' if it is intended to make the article attractive or distinct in appearance."[54] Such a test appears to be largely appropriate, except if it implies an entirely subjective (to the designer), as opposed to a more objective test of ornamental. While the actual intent of the designer is clearly relevant, it ought not to be entirely determinative in every case.[55] We believe that the test should be such that it would appear to the typical purchaser or user of the article to which the design was applied, that the design was intended to make the article attractive, special or distinct in appearance. Further, since there is often confusion about the meaning of such requirements, consideration could be given to adding a clause which stated that notwithstanding the requirement that the design be of an ornamental character there is no requirement that the design have any ornamental merit.[56]

(iv) Express Exclusion of Functional Features in the Definition of Industrial Design

A definition of industrial design which limited it to solely the features of appearance of articles and which required an ornamental character should not be relied upon exclusively to ensure that industrial design protection is not extended to the operational features of designs. Consequently, the definition of industrial design should also include an express exclusion of operational features.

The design laws of the majority of the countries we have examined have some form of express exclusion of operational features from the subject matter of design protection. In the British law, which appears to have been adopted to a considerable extent by the Canadian courts for application to Canadian law,[57] we have noted that the exclusion refers im part to "features of shape or configuration which are dictated solely by the function which the article to be made in that shape or configuration has to perform."[58]

At one time the judicial interpretation of this exclusion was quite restrictive. It was viewed as excluding only those features of a design for an article which were absolutely necessary to the functioning of an article of its type. If an article could be designed with even one other appearance than the one claimed in the design, then the claimed design was not excluded from protection by this provision.[59] Some commentators have noted that this restrictive interpretation of this exclusion of functional features virtually emasculated it. Apparently, designs were rarely refused registration by the British Design Office on the basis that their features were dictated solely by function.[60] It was said that perhaps the only example of a design which was excluded by this interpretation was that of a key cut to fit a particular lock.[61] It was even suggested that given the very restricted scope of the above exclusion that there was the "... possibility of manufacturers taking out a series of different designs so related to each other that together they give control over all effective ways of making an article to perform a particular function."[62]

The result of the above interpretation would appear to be that a design registration might give exclusive rights to a more efficient way of carrying out a particular function. Features of a design would not be excluded from protection if they did not represent the only way in which to design an article to carry out that function, even though those other designs embodied markedly less efficient means of achieving the same function.

More recent judicial interpretation of the British statute exclusion of functional features has viewed the exclusion as applying to any design the purpose or effect of which is purely functional.[63] This interpretation is to be preferred over the earlier interpretation as it will exclude a purely functional design from protection even though it does not represent the only method by which the particular functional result can be obtained. However this newer approach will be certain to prevent the monopolization of the most efficient method of achieving a particular technical result by the industrial design law only if any design embodying such a method for which protection is sought is in a purely functional form. It would appear that when the design was mostly functional, but was in some minor respect decorative, that such design could not be excluded from protection as being purely functional in nature.

Narrow exclusions of operational features like those noted above fail to serve adequately the purpose of preventing the use of the industrial design system to monopolize operational features of articles. Ideally, an adequate clause which excluded operational features would exclude the protection of a design in any case in which it would not be possible to make the article in a different design that would perform the same function equally as well.[64] For such a clause to be truly effective in achieving the intended purpose, in assessing the possibility of using another design to perform the same function equally as well account would have to be taken of whether such other design was itself protected under the industrial designs system. If such other design was so protected, then (under the ideal system) the design in question would not be registrable. The goal would be to ensure that there was for every useful article at least one design of optimum operational efficiency which could be used free of the constraints of the industrial design system.

An exclusionary clause of the type suggested immediately above identifies the nature of the concern with the relation of design law to operational features. The adoption of such a clause is not recommended, however, as it would not be workable in practice. The task of the Industrial Design Office under such an exclusion would be very difficult and time-consuming, i.e., examining each application to determine whether there were freely available design alternatives which were equally efficient in respect of all aspects of function of the article in use and of methods or principles of construction.[65] In addition the adoption of such a difficult to apply test would lead to considerable uncertainties about the validity of design registrations and introduce further complexities and costs into litigation concerning infringement.[66]

The Canadian Royal Commission report of 1958 made a recommendation that would have been effective to exclude completely operational features in designs for the shape of articles from protection under the industrial design system. The Commission proposed that a definition of design be adopted which would exclude, "...features of shape or configuration which are dictated wholly or partly by the function which the article to be made in that shape or configuration has to perform."[67] Such an exclusion would meet the objection noted above to the current British statute exclusion of only purely functional designs, i.e., that it might be possible to protect functional aspects of a design by registering a design that was partly functional and partly decorative. However, we note that the Royal Commission recommendation was attacked by critics who argued that the recommendation would render unprotectable, "...almost all typical contemporary design."[68]

The concern of these critics that the practical effect of a very broad exclusion of functional features in the definition of industrial design would be to exclude a substantial portion of contemporary designs from any chance of protection under the industrial design system is a reasonable one. Note, for example, that the effect of such an exclusion might be to deny any protection to designs even where they were largely decorative in effect and only operational in some minor respect. Consequently, the adoption is recommended of an exclusion of functional features in the definition of protectable designs that is somewhere between the one extreme of the narrow exclusion of only purely functional designs and the other extreme of the broad exclusion of designs which are in any part functional. The adoption of such a middle course will permit the registration of some designs that are partly functional. In order to prevent the monopolization of any functional aspects of such designs through the industrial design system it is also proposed below that an express exclusion be introduced into the sections of the statute defining the scope of protection (infringement) which excludes the taking of the functional features of any design from being infringement.

It is recommended that the definition of protectable subject matter exclude features of a design the effect of which is primarily to contribute to the article performing its functions in use. Such a provision would at least exclude those designs that clearly should not be protected under the industrial designs system at all because they are chiefly functional, but would not exclude from any chance of protection those designs which had some functional effect, but which were not primarily functional. Such an exclusion would be easier to apply than one which excluded only any functional improvement or only functional design where there are freely available other equally efficient functional designs. The recommended exclusion involves an assessment only of the particular design in question while the latter approaches require a thorough knowledge and assessment of all of the relevant prior art. Consequently, the recommended approach should be less difficult to apply by applicants, the Industrial Design Office, and the courts than the latter approaches.

A further aspect of the recommended exclusion to be noted is that the test of functionality is to be applied to the effect of the design and not to the intent of the designer. As a practical matter in most cases the conclusions drawn from assessing the designer's intent will be the same as those from assessing the effect of the design. However, a test which applies to the effect of the design rather than the designer's intent is likely to be easier to administer. Further, the actual effect in the potential protection of functional features through industrial design law is the real concern, and not merely what the designer intended to be the effect.

A further matter to be considered in respect of the scope of the exclusion of functional features is whether the exclusion should apply only to features of three-dimensional shape or configuration or whether it should apply also to features of two-dimensional pattern or ornament. Under the present British statute the exclusion of functional features applies only to features of shape or configuration. The Ilsley Royal Commission recommended that the exclusion of functional features in the Canadian act ought to be similarly limited.[69] Criticism of the Royal Commission recommendation noted that patterns applied to the surface of articles can be functional--engraved or embossed guideways, tire-threads and measuring means were among several examples of such patterns noted.[70] This criticism is valid and it is recommended that the exclusion of functional features apply to all types of design features, whether three-dimensional or two-dimensional.[71]

(v) Express Exclusion of Functional Features in the Definition of Infringement

The above exclusion proposed for the definition of industrial design will permit the registration of designs which are partly, though not primarily, functional in nature.[72] Consequently, there will be a need for an exclusion of protection of functional features in the sections of the revised statute defining the scope of protection (and thus the concept of infringement) available for registered designs.

As in the case of the proposed exclusion of functional aspects in the definition of industrial design, the exclusion from the scope of protection ought to focus not on the subjective intention of the designer, but on the effect of the design itself.[73] As well, the exclusion of functional aspects of designs from the scope of protection ought not to be limited to three dimensional (as opposed to two dimensional) designs, but ought to refer to all industrial designs.[74]

Some consideration was given to trying to adapt some form of the Ilsley Commission's recommendation using the phrase "wholly or partly dictated by function."[75] However, all of the forms of that exclusion generated appeared to treat the design on an "all or nothing" basis, that is if the design were partly functional, then no protection would be available for any aspect of the design in any circumstances. Such an approach is unnecessary, and that when it is possible to identify and to sever the aspects of the design not dictated by function from those that are, and when the copying of the former aspects amounts to a substantial copying of the original design, infringement ought to be found to have occurred.

A formula for exclusion of functional elements was sought that would totally exclude protection for any such elements, yet leave open the possibility of protection for the non-functional elements. Such a formula may be found in the language of the proposals of the U.K. Consultative Document (1981) which proposes to exclude from the copyright protection to be extended to industrial designs, any aspects of design so far as they are dictated by the function which the article has to perform.[76]

It has been observed that the word "dictated" as in the phrase "dictated by function," "...is a metaphorical word out of place in a statutory definition."[77] The word is ambiguous as it could mean simply "prompted by" or "for the purpose of," or on the other hand it could mean "compelled" in the sense that the functional requirements compelled or required the use of the particular features of appearance. We have noted that earlier British decisions may have espoused the latter meaning of "dictated."[78] However, the House of Lords in Amp v. Utilux was unanimous in giving it the former meaning. To avoid any possible future confusion consideration ought to be given to replacing the word "dictated" in both the function exclusionary formulae suggested for the definition of industrial design[79] and for the definition of infringement[80] by another form of words such as "attributable to, caused or prompted by."[81]

(vi) Exclusion of a Method or Principle of Construction

In reference to the meaning of those "operational" features the protection of which has been controversial in design law it was noted that reference was being made both to features which contribute to an article performing its function in use and to features which embody some principle or process of the construction of an article.

The present U.K. statute, which may reflect by judicial adoption the present Canadian law, states that a "design" under the statute, "...does not include a method or principle of construction."[82] There has been some criticism of the appropriateness of the U.K. statutory language to achieve its intended effect.[83] Nevertheless the general intent of the provision seems to be understood. That intent is that the definition of protectable subject matter ought to be drafted in such a way that it precludes the registration of any industrial design, the effect of which would be to give the registrant protection in relation to any method or principle of construction or manufacture. Whether the existing U.K. statute language is used, or some other formula is developed, language which will be effective to achieve the purpose ought to be included in the definition of industrial design.

3. Summary of Recommendations

(a) The industrial design statute should protect only the appearance features of designs for utilitarian articles and should exclude from protection operational features of designs for such articles, where "operational features" refers both to features which contribute to the functions the article performs in use, and to features which embody methods or principles of construction or manufacture of the articles.

(b) Location of the Exclusion of Operational Features

1. There should be a reasonably effective, but limited in scope, exclusion of operational features in the definition of "industrial design."

2. There should be a fully effective exclusion of functional features in the definition of the scope of protection for industrial designs.

(c) Scope of the Exclusion of Operational Features

1. "Industrial design" should be defined as constituting solely the features of appearance of a utilitarian article.

2. Industrial designs should be required to have an ornamental character, by which it is meant that the features of appearance of the utilitarian article which are the design should be such as would appear to the typical purchaser or user of that type of article to have been intended to make the article attractive, special or distinctive in appearance. For greater clarity a clause could be added which stated that notwithstanding the requirement that the design be of an ornamental character, there is no requirement that the design have any ornamental merit.

3. The definition of "industrial design" should exclude features of appearance of both two and three dimensional designs which are primarily attributable to, caused by, or prompted by any function which the article to which the design is applied has to perform.

4. The definition of infringement should exclude the copying of any features of appearance of any registered industrial design so far as such features are attributable to, caused by or prompted by any function which the article to which the design is applied has to perform.

5. The definition of "industrial design" should exclude features of appearance which the effect of protecting would be to give the registrant protection in relation to any method or principle of construction or manufacture.

4. Footnotes to Chapter 1

1. R.S.C., 1970, c.I-8.

2. R.J. Roberts, in "An Historical Perspective on the Reform of Canadian Industrial Design Law" (1978-79) 26 Bull. Copyright Soc. of USA 447 describes the historical development of the present statute.

3. ..."[the statute] is a piece of legislation that seems flimsy and incomplete, ill adapted for its intended purposes, and is seriously in need of amendment..." *per* Maclean, J. in *Clatworthy and Son Ltd. v. Dale Display Fixtures Ltd.*, [1929] Ex.C.R. 159 at 162.

Professor Roberts, above note 2, indicates that the difficulties in interpreting and applying the present statute may have stemmed from a fundamental misconception about its intended function. However, it appears to be too late to cure the problems simply by a reinterpretation of the present statute, assuming that the results of such a reinterpretation would be desirable on policy grounds. Roberts notes that a fundamental policy decision is necessary as to the type of protection to be offered by the system and that the choice ought to be made clear in the statute. He suggests that the choices are: "...copyright-type protection (the limited right to prevent actual copying of the design); trademark-type protection (the right to prevent another trader from adopting a design so close to the registrant's as to create confusion between the two); or patent-type protection (an exclusive monopoly of the registered design)." Roberts, *op. cit.*, pp.462-463.

4. Mahoney, J. in *Gandy v. Commissioner of Patents* (1980) 47 CPR (2d) 109 at 112 noted that, "...the definition [of industrial design] developed in Canadian jurisprudence is not very different [from the cited definition in the U.K. act]."

5. 12,13 & 14 Geo.6, c.88.

6. Below, Pt. E., text at notes 13-18, we consider further the nature of the definition of industrial design and make recommendations for its statutory definition. However, we should note here the unsatisfactory nature of defining industrial design as features of appearance applied, simply, to a "manufactured article." Since a canvas on which a painting is done or the bronze casting which results in a finished sculpture are "manufactured articles," such a definition if interpreted literally will not distinguish

industrial designs from works of art protected by copyright. The courts in interpreting "article" in this context have, consequently, refused to give it its literal, unrestricted meaning. In order to be an "article" within the definition of industrial design, the article, "...had to have some purpose other than that of merely carrying the ornament [i.e., the design]." Fysh, Michael, *Russell-Clarke on Copyright in Industrial Designs*, 5th Ed., (1974) p.13. In other words the article generally had to have some utilitarian or functional purpose beyond that of displaying the design itself. Consequently, the definition of industrial design becomes, in part, "features of appearance of a utilitarian article, where an article is utilitarian only if it has some function other than displaying the features of appearance of the article." In the light of such a definition, of course, the potential implications of industrial design protection for the protection of operational features of utilitarian articles becomes evident.

7. *Cimon et al. v. Bench Made Furniture Corp. et al.* (1964), 48 CPR 31 (Ex.Ct).

8. The issue of the relation of design protection to operational aspects of articles does not arise exclusively in relation to three dimensional as opposed to two dimensional designs, see below, text at notes 69-71. However, three dimensional designs raise the problem most clearly and most frequently.

9. Part I.

10. Part I.

11. *Re Application of R.R. Bryan*, C.P.O.R., March 28, 1978, p.xvii. The Federal Court of Appeal has indicated that applications for design registrations which are solely functional are to be rejected. *Commissioner of Patents v. Goodyear Tire and Rubber Co.* (1979), 43 CPR (2d) 219 at 223 *per* Pratte, J.

12. *Angelstone v. Artistic Stone Ltd.* (1960), 33 CPR 155 (Ex.Ct.). See Fox, *The Canadian Law of Copyright and Industrial Designs*, 2d.Ed., (1967) p.654. [hereafter referred to as "Fox, *Copyright*".]

13. Above, Part I.

14. Above, Part I.

15. For example, see Secretary of State for Trade, *Report of the Committee to Consider the Law on Copyright and Designs*, 1977 London, HMSO Cmnd. 6732, p.44, para. 166. [Hereafter referred to as "Whitford Committee Report."]

16. Economic Council of Canada, *Report*, pp. 120-121, 122. [See above Part I].

17. *Whitford Committee Report*, above note 13, pp. 49-50, para. 191.

18. This would appear to be the thrust of the recommendation of the Economic Council of Canada in its *Report*, above note 16, at pp. 121-122.

19. A majority of the Whitford Committee, above note 13, appears to have adopted this kind of argument for not excluding operational aspects from design protection. See its *Report*, pp. 44, para. 166. A similar view has been put forward by Roy V. Jackson. See, for example, "Proposals for new Industrial Design Legislation" (1956) 38 JPOS 371 at 371-72. The Australian Designs Law Review Committee in its *Report on the Law Relating to Designs*, 1st Term of Reference, 1973 Canberra: The Government Printer of Australia, recommended that the Australian designs statute be amended so that no design could be refused protection "...on the ground that the design consists of or includes features of shape or configuration that serve or serve only a functional purpose," p.10. However, the Committee also stated, "We do not propose that the function itself should be capable of protection by way of the designs legislation...," p.9. [Hereafter the Australian report will be referred to as "*Franki Committee Report, 1st Reference*" after its Chairman Mr. Justice Franki.]

20. Above, p.l.

21. A "mere scintilla of invention" has been described as being sufficient. See Fox, *Canadian Patent Law and Practice* 4th Ed., (1969), p.65 and cases cited there. See also, Hill, Donald A., "The Requirement for Inventive Step," (1980) PTIC Bulletin, Series 8, Vol. 6, p. 306.

The Canadian Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs, *Report on Industrial Designs* (1958) urged that the industrial design system not become a form of "short term patents on workshop improvements." In the Commission's view such an approach "...would retard progress rather than promote it." p.17. [Hereafter referred to as "Ilsley Commission Report"]. The prospect of extending the protection of the industrial designs system to operational features raises questions about Canada adopting a petty patent or utility model system in addition to or in lieu of some of our present intellectual property systems. This matter is discussed below, in Ch. 13.

22. It is possible that there is, generally, a significantly more limited range of forms available for any operational feature of an article than there is for any visual feature. The truth of this hypothesis in the context of industrial design protection depends on the definition of what constitutes a form which is different from an earlier form. This turns on the definition and application of the concept of infringement in the industrial design law. See notes 23 and 24 below.

23. Present Canadian law does not require a showing of exact identity between the protected registered design and infringing design in order to prove infringement. Carr-Harris Products Ltd. v. Reliance Products Ltd. (1969), 58 CPR 62 (Ex.Ct.) at 82, affirmed (1970) CPR 158n. (SCC).

24. See Carr-Harris Products Ltd. v. Reliance Products Ltd., note 21 above. If the necessary operational features of the article to which a design is applied greatly constrain the range of different appearances which are possible for that article, the potential for monopolizing the operational features indirectly through a monopoly of one appearance (protected industrial design) is greatly reduced if it is held that very small differences in appearance will mean that a second design is not infringing the first.

The Carr-Harris case involved a design for a tent peg and the Court observed, "There is limited scope available for the design of a tent peg." However the Court noted "Within the limits [imposed by the functional requirements] there is room for achieving a distinctive appearance." (p.80) The Court went on to find that the plaintiff's registered design exhibited sufficient originality to be protected and that the particular elements of the design were not dictated by function. However, when the court considered whether the defendant's tent peg design infringed the plaintiff's design the court held that it did not and stated,

> "...if relatively small differences in various parts of the components of design from what existed before, when combined, give an overall shape that is sufficiently different from what has gone before to make the result original and registrable (as I have found the plaintiff's design to be) it follows that very small differences of these same components which contribute to a design of a quite different overall shape must take that second design out of the ambit of the registration of the first design." (p. 84)

25. Cases like *Carr-Harris* arise under law in which the court must not regard the operational aspects of the article to which the design is applied as part of the protected design or as a part of the alleged infringing design. In such circumstances the court would appear to have to disregard any identity of operational aspects in the plaintiff's and defendant's designs in assessing whether the defendant's design infringes the plaintiff's design. Where operational aspects are not excluded (perhaps expressly so as recommended by the Australian *Franki Committee Report, 1st Reference*, see note 17, above) it would appear to be more difficult for the court to disregard the identity of operational aspects in its assessment of whether infringement has occurred. While the exclusion of operational features from the subject matter of industrial design is not express in the present Canadian statute, the Courts have achieved the effect of an express statutory exclusion by interpreting the statute by reference to the U.K. statute. See above at note 4.

26. Under the present Canadian industrial design, patent and trademark statutes the granting of "registration" of a particular application by the respective government offices yields a registration which is only presumptively valid and which can be invalidated through court action. This approach recognizes the difficulties inherent in assessing whether any application meets the relevant criteria for protection and permits a person demonstrate its invalidity.

27. Novelty or originality is a criterion of protection under the present Canadian industrial design law. See below, Ch. 3, text at note 9. Any design which cannot meet the test of novelty presumably does not represent an "innovation".

28. *Canadian* law, see text at note 11. *Ilsley Commission Report*, above note 21.

U.K. law, see text after note 4. U.K. law reform reports: (i) Board of Trade, Patents and Designs Act, *Final Report of the Departmental Committee*, 1947, London, HMSO, Cmnd. 7206, p. 57 (Heareafter referred to as the "Swan Committee Report"). (ii) Board of Trade, *Report of the Departmental Committee on Industrial Designs*, 1962, London HMSO, Cmnd. 1908, pp.44-45. (Hereafter referred to as the "Johnston Committee Report.") (iii) Secretary of State for Trade, Copyright and Designs Law, *Report of the Committee to Consider the Law on Copyright and Designs*, 1977, HMSO Cmnd. 6732 ("Whitford Committee Report") *per* a *minority* of the Committee at pp. 48-49. *Contra* the majority at p. 47.

The present U.S. design patent law excludes protection for designs, "dictated solely by mechanical or functional requirements," Hygienic Specialties Co. V. H.G. Salzman Inc., 133 USPQ 96 (2d.Cir. 1962) at 100, quoted in J.G. Furniture Company Inc. v. Litton Business Systems 194 USPQ 493 (SDNY 1977) at 491. It may exclude those designs primarily dictated by function, Barofsy v. General Electric Corporation, 158 USPQ 178 (9th Cir. 1968). The present U.S. copyright law has provisions designed to exclude copyright protection from applying to the utilitarian aspects of works of applied art. 12 USC 101, 102(b) (1976).

Australia. While there is no explicit exclusion of operational features in the Australian Designs Act (1906-1969), the courts have read the British law exclusions into the Australian law in their interpretation of the definition of "design" (s.4) in that statute. See Franki Committee Report, 1st Reference, above note 19, pp. 8-9. The Franki Committee recommended that the Australian statute contain an express exclusion for "a method or principle of construction" (p. 8). However as to functional features of the article in use the Committee stated, "We do not propose that the function itself should be capable of protection by the way of the designs legislation but simply that function should be no bar to the registration of particular features of shape or configuration as a design..." The Committee went on to recommend the inclusion of the statutory provision referred to in note 19 above to give effect to its views.

Uniform Benelux Designs Law, Art. 2(1) "Anything indispensible for the achievement of a technical result shall be outside the protection under this law." See translation in (1974) Industrial Property 177 at 178.

29. Denmark, Finland, Norway and Sweden, adopted the law in 1970-71. English translations of the statutes appear in (1971) Industrial Property 223 ff. See Ljungman, S., "The New Nordic Design Legislation Under Comparative Aspects" (1973), 4 IIC 336. The reasons for adopting this approach reflect the kinds of concerns expressed by the Economic Council of Canada about the nature of desirable design, i.e., that aesthetics and utility blend into an inseparable whole. Ljungman, p. 338.

30. The Swedish Committee on Designs, in its report recommending the new legislation, dealt with the objection that permitting designs to be registered without qualification in relation to the functional aspects of the designs might permit the monopolization of particular functional features through design registrations. The

Swedish Committee concluded that the problem was not a real one. It was their view that "even in cases where the appearance of goods is conditioned by the product's technical function there would be no great practical difficulty in developing a different appearance for a product with comparable technical qualities." Ljungman, op. cit., pp. 338-339. The only example where there would be no alternative appearances for an article serving a particular function that the Committee could find was that of a key to fit a particular lock. Ljungman, S., "The Scandinavian Approach to Design Protection...," in Jehoran, H.C., ed., Design Protection, (1976) Sijthoff, Leyden, Netherlands, p. 117 at 124-125. Professor Seve Ljungman was the Chairman of the Swedish Designs Committee. See Ugla, C., "The Swedish Design Protection Act" (1971), Industrial Property 241.

In assessing the Swedish Committee's conclusion about the availability of multiple appearances to perform particular functions [and therefore the lack of concern about monopolization of a function through the protection of a particular appearance (design)], much will turn on the nature of the law defining infringement. If the law gives a broad scope of protection to registered designs there is a greater danger that design protection will indirectly result in the monopolization of functional aspects. The material available to us on the new Nordic law does not permit us to judge adequately the scope of protection available to registered designs under that law. However, we note that the Chairman of the Swedish Designs Committee indicates that to escape infringing, another design must differ "substantially" from the registered design. Ljungman, see note 29, p. 346.

Since Canadian law has contained a fairly broad scope of protection to date, and since we recommend that approach continue, we do not recommend the adoption of the Nordic approach.

31. Above, text at note 11.

32. Above, text after note 4.

33. Johnston Committee Report, pp. 43-44.

34. Ilsley Commission Report, p. 18.

35. This is , of course, a central question around which there has been considerable debate. If one is satisfied that an operational result has not been monopolized if the particular mode of achieving the result in the protected design is not the only technically possible mode of achieving that result (regardless of the relative efficiency of those

other modes), one may tend to conclude that generally the function can be copied without copying the form. If one is concerned that there be relative equality of efficiency in achieving the technical result between the mode in the protected design and other available modes, one may be more inclined to find that the function cannot be taken without the form. Further, if one sees the "function" as not merely the technical result, but also the particular technical mode chosen to achieve that result, one may be more inclined to conclude that function cannot be taken without the form. In addition, the likelihood of being able to take the function without the form would also appear to depend to a considerable degree on what is seen as the general scope of protection for the form, i.e., what degree of similarity will satisfy the test of infringement. If only a very high degree of similarity will satisfy the test of infringement, then much more scope may exist for taking the function without taking the form so narrowly defined. See above, notes 20, 21, 22.

The great conceptual and practical difficulties presented in trying to separate form and function are referred to again below in the consideration of copyright law, Ch. 2, text at note 124.

36. See note 35.

37. Registered Designs Act 1949, above note 4a, s.1.(2).

38. AMP Inc. v. Utilux Pty. Ltd., [1972] RPC 103 at 108 per Lord Reid, "And the words 'judged solely by the eye' must be intended to exclude cases where a customer might choose an article of that shape not because of its appearance but because he thought that the shape made it more useful to him."

39. A similar result would arise under this view where there was evidence that the utilitarian article could not be produced as efficiently unless it were given the appearance in the claimed design.

40. Such a view states that the effect of a definition of protectable subject matter as being solely the appearance of an article is only that features other than appearance cannot be described and claimed as the subject matter of the design. However, indirect protection of features other than appearance is not precluded.

41. The requirement in the present British legislation that the design appeal solely to the eye could be interpreted as a requirement that the design appeal to the aesthetic sense. *Amp v. Utilux*, above note 38, *per* Lord Pearson at pp. 122-123.

42. Below, Ch. 2, text after note 106 and 122. See also note 113 and articles by M.C. Dobbs cited there.

43. *Bleistein v. Donaldson Lithographing Co.* 188 U.S. 239 (1903) *per* Holmes, J. at p. 250. See Pt. E, below, at note 122.

44. For similar analysis of the requirement of artistic character in relation to artistic works protected by copyright see Ch. 2, note 116.

45. Ilsley Royal Commission, *Report on Industrial Designs*, (1958) p. 20. However, at p. 17 the Commission concludes, "If a practicable definition could be worked out which would make a design registrable if the main, principal or primary purpose was that the article be more pleasing to the eye than it otherwise would be, this might be preferable." The Commission goes on to conclude that such a definition would be "impossible of application by the courts."

46. Ilsley Royal Commission, *Report on Industrial Designs*, (1958) Appendix C, p. 37.

47. *Ibid.*, pp. 50, 52-53.

48. *Ibid.*, p. 50, citing *Smith v. Whitman Saddle Company*, 148 U.S. 674 (1893).

49. *Ibid.*, pp. 58-61. See for example the "flash of creative genius" standard that may be suggested in *Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U.S. 84 (1941).

50. Hamilton appears to allude to this in a reference to, "...a blurring of the frontier between invention an beauty..." *Ibid.*, p. 52. See generally the cases cited by Hamilton, pp. 49-53.

51. *Ibid.*, pp. 38-62.

52. Below. Ch. 3, text at notes 35 and 36.

53. Below, Ch. 2, text at note 105.

54. H.R. 4530, 96th Congress, 1st Session, s. 901(a), (b)(3).

55. Occasionally, in spite of his intent, a designer might produce a purely functional design. In other instances it might be possible that a designer not intending to produce a design with any ornamental aspects, in fact does produce such a design.

56. As an example of such confusion see the discussion which has taken place of the meaning of "irrespective of artistic quality" as it appears in the definition of artistic work in the U.K. Copyright Act 1956. Below, Ch. 2, note 113.

57. Above, text after note 3.

58. Registered Designs Act 1949, above note 4a, s.1(2).

59. Fox, Copyright, p. 655. See also Cornish, "Cumulative Protection for Industrial Designs" (1973) 8 UBC Law Rev. 219 at 236. This approach may still be the law in Canada, see above text at note 11.

60. Johnston Committee Report, above note 26, p. 44.

61. W. Wallace, "Protection for Designs in the United Kingdom" (1974), 5 IIC 421 at 425.

62. Johnston Committee Report, above note 28, p.44.

This narrow form of exclusion of functional features appears to have been incorporated into the Uniform Benelux Designs Law, Article 2(1) (translation) "Anything indispensable for the achievement of a technical result shall be outside the protection under this Law" [emphasis added]. See Jehoram, H.C., "Designers and Lawyers on Design Protection" in Design Protection, Jehoram, Ed., Sijthoff, Leyden, 1976, p. 177 at 178-179.

63. Amp v. Utilux, [1972] RPC 103 (HL). The recent U.K. "green paper" on copyright law revision recommends that this approach be used to exclude (purely) functional designs from protection under the U.K. copyright statute. Reform of the Law relating to Copyright, Designs and Performers' Protection, A Consultative Document, Cmnd. 8302, 1981.

64. Barbara Hough, in a series of unpublished notes done for Consumer and Corporate Affairs in 1971 on the subject of industrial design law reform suggested an exclusion in the form:

> "except where it is impossible to make an article of a different shape or pattern which serves the same function approximately as well, and by an approximately as efficient principle of construction."

B. Hough, "Definition of Design and Related Problems," July 9, 1971, p. 2.

65. The problem of the Office would be to discover the relevant prior art in relation to function in use and methods of construction, to determine that such prior art was equally efficient in every operational respect, and to determine that such prior art was freely available for use in Canada. Given the range of products and technologies involved in design applications, a considerable body of expertise would be required by the Design Office, that might well eventually equal or exceed that now required by the Patent Office.

One method of reducing uncertainty and the burden and costs upon the Design Office under such a system might be to require each application for a design registration to be accompanied by a copy of another design for the same article which the applicant could identify as being equally efficient to the applied for design in all respects of function in use and principles or methods of construction, and further as freely available for use by others in Canada. In many cases the second such design would be one already existing in the prior art. In other cases, particularly when the design was for a new type of article, the applicant might have to create the second design specifically for the purpose of dedicating it to public use.

66. Kent, Cecil C., "The Semantics of Industrial Design Protection" (1958), 31 CPR 61 at 69 in response to the 1958 Royal Commission recommendations suggests an exclusion as follows, "...provided such features do not constitute or contribute to, any materially useful improvement in the functioning of the article to which they have been applied...." Such an exclusion would involve the Design Office in a search of the prior art and an assessment of whether the applied for design constituted an improvement in the functioning of the article that would be essentially the same as that referred to in the text. This proposal is rejected for the same reasons noted in the text.

The U.S. Copyright Act of 1976 illustrates another legislative approach to the problem of protecting the visual features of design without granting protection to the operational features. The U.S. Act provides that "...the design of a useful article,...shall be considered (a protected work) only if, and only to the extent that, such design incorporates pictorial, graphic or sculptural features that can be identified separately from and are capable of existing independently of the utilitarian aspects of the article." 17 USC 101 (1976).

The House Report, General Revision of the Copyright Law 94-1976, U.S. House of Representatives, p. 55 states that the separability of the design and the utilitarian aspects of the article can exist either physically or conceptually. "Conceptual" separation raises potentially difficult problems of applying the statutory test to cases in which the design is not a clearly extraneous design applied to an article (e.g., a telephone in the shape of a cartoon character), but rather simply a new design for the article (e.g., a new shape of telephone). The U.S. Court of Appeals has denied protection to a design for an outdoor lighting fixture "in nontraditional form, devoid of ornamentation or decoration but of pleasing shape" (414 F. Supp. at 940), Esquire Inc. v. Ringer 414 F. Supp 939, 194 USPQ 30 (DDC 1976); rev. 199 USPQ 1 (DC Cir. 1978); cert. denied 99 SC 2016 (1979). However, the court has recognized protection as possible for designs for belt buckles of non-representational design on the basis that they represent "conceptually separable sculptural elements" (208 USPQ at 5), Kieselstein-Cord v. Accessories By Pearl Inc. 201 USPQ 439 (SDNY 1980) rev. 208 USPQ 1 (2d.Cir. 1980).

Our examination of the U.S. Copyright Act approach does not lead us to recommend it as one to be followed in the Canadian design law. Conceptually, and in application, it appears to be at least as difficult to work with as the approach discussed in the text.

See Nimmer on Copyright (1980)s.208[b] [3], and "Copyright Law - Copyright Protection for Industrial Designs Under the 1976 Copyright Act "(1979), 25 Wayne Law Rev. 923.

A further approach to the exclusion of protection for operational features that we have considered and rejected is that of merging industrial design protection with the ordinary copyright statute and relying exclusively upon general copyright doctrines such as originality, artistic character and the idea/expression dichotomy to exclude functional elements from protection. Roy Jackson has argued that such an approach should be used. See, for example, "Industrial Design Law In Canada" (1958) 31 CPR 61, see particularly pp. 41-42. The U.K. Consultative Document (1981) adopts a somewhat similar approach although it would appear to recommend an express exclusion of functional aspects from the subject matter of protection as a reiteration of fundamental copyright principles, perhaps in the light of certain recent U.K. judicial decisions which may have misapplied those principles. Our reasons for rejecting the "copyright approach" are outlined in Pt. E. text at note 87w, and we consider the recent U.K. experience in Ch. 2., text at notes 105 and 124.

67. Ilsley Commission Report above note 19, p. 17. The recommendation reflected an adaptation of the British statute provision by the substitution of "wholly of partly" for "solely" which appears in the British statute.

68. Jackson, Roy V., "Industrial Designs in Canada: The Royal Commission Report" (1959), 33 CPR 243 at 244.

69. Ilsley Commission Report, above note 21, p. 17.

70. Kent, Cecil, "The Semantics of Industrial Design Protection" (1958), 31 CPR 61 at 66.

71. The exclusion in the Uniform Benelux Law, Article 2(1), does not appear to be limited to three-dimensional features. See note 62, above.

72. The extent to which industrial designs could be registered which could result in protection being extended to functional aspects of designs notwithstanding the definition of design referring to solely the appearance of articles, and the requirement of an ornamental character is unclear. The present British statute definition of "design" limits it to features which "appeal to and are judged solely by the eye" [2.2(1)], which appears to be a requirement that the features be of appearance alone, and may be a requirement of an ornamental character. Notwithstanding that factor, the drafters of the legislation found it advisable to include an express exclusion of features of shape dictated solely by function. The concern is, that while protection may nominally be limited to the appearance features of a utilitarian article, there may be indirect protection for functional features, as such an article which is to perform a particular function, or to perform a particular function in a particular way, may have to have substantially the same features of appearance.

73. Above, before note 69.

74. Above, at note 69.

75. Above, text at note 67.

76. Reform of the Law relating to Copyright, Designs and Performers' Protection, A Consultative Document, Cmnd. 8302 (1981), p. 6.

Adopting the language suggested by the U.K. Consultative Document in the proposed exclusion of functional features in the definition of "industrial design" is not recommended in part because it was not recommended to integrate the protection of industrial designs with the ordinary copyright system as does the Consultative Document. (See below, Ch. 3, text after notes 33 and 179). Under such an approach, since copyright protection arises "automatically" (i.e., without application and registration) there will be (de facto if not de jure) prima facie protection for the general appearance of articles. Under the system proposed there will be no prima facie protection unless the design can be registered. As noted above in the text, if the exclusion of functional features used in defining what is registrable is drafted in too sweeping terms, many designs will never qualify for even a chance at protection as they will not be registrable.

A further reason for not considering the language in the U.K. Consultative Document as a basis for the functional exclusion in the definition of "industrial design" is that appears to be the type of test that is best applied in the context of a specific allegation of infringement. The exclusion proposed is basically a specific application of the fundamental general principle that copyright protects only the form of expression and not the underlying concepts or ideas. Experience with that subtle, and often difficult to apply test confirms that it is helpful (perhaps essential) in applying it to be able to look at some specific alleged infringing work as compared with the protected work in trying to assess where mere expression leaves off and idea or function begins.

The difference between the language of the U.K. Consultative Document and the present U.K. Registered Designs Act 1949, above note 4a s.2(3), ought to be noted. The Consultative Document frames the exclusion in classic copyright form as a "gradualistic," "continuous," "question of degree" test: appearance is protected, "...in so far as it is not dictated by the function that the article may have to perform." (p. 6). The Designs Act appears to pose a more discrete test: "...features... which are dictated solely by the function which the article... has to perform." The Designs Act exclusion has been interpreted to exclude, and probably only exclude, the "purely" functional, i.e., features which have no other purposes than functional purposes. The Consultative Document test appears to contemplate appearances of articles (and perhaps aspects of features of appearances) with mixed purposes (i.e., functional and other, e.g., aesthetic) with the exclusion of protection so far as the purposes are functional, even though not solely functional. The word "solely" does not appear in the language used in the Consultative Document.

The formula suggested in the text is preferred to the approach taken in the proposed U.S. design legislation, H.R. 4530, (see note 38m, above). The legislation first excludes from protection (via registration) a design that is "dictated solely by a utilitarian function of the article that embodies it" [a narrower exclusion for the definition of protectable designs than is proposed, above]. The proposed statute then provides [s.908(d)] an exception from the definition of "infringing article" for any article which only embodies elements excluded by the above, "dictated solely by..." test. The widest interpretation that the U.K. courts have given the "dictated solely by function" exclusion is to exclude "purely" functional designs and that is not a sufficiently broad exclusion, see above, text following note 57.

77. Amp v. utilux, [1972] RPC 103 at 109 per Lord Reid.

78. Above, text after note 40.

79. Above, after note 51.

80. Above, at note 60.

81. Amp v. Utilux, [1972] RPC 122 per Lord Pearson.

82. Registered Designs Act 1949, above note 4a, s.2.(3). Kaufman v. Minor [1925] 1 DLR 505 at 507 (Ex. Ct.).

83. Ilsley Commission Report, above note 21, p. 19, quoting Russell-Clarke on Copyright (1951) p. 154.

CHAPTER 2

THE RELATION BETWEEN COPYRIGHT AND INDUSTRIAL DESIGN

1. Introduction

In establishing the appropriate subject matter for industrial design protection one of the more difficult problems is the appropriate relationship between industrial design protection and copyright protection.[1] As will be explained below, unless specific statutory provisions are adopted to preclude it, copyright protection applies extensively to industrial designs. The issues are then, whether copyright ought to be permitted to apply to industrial designs, and if duality of protection (copyright plus industrial design) is to be limited what should be the scope and methods of such limitation.

2. Present Canadian Law

Section 46 of the Copyright Act specifically limits the application of copyright protection to industrial designs. However, before considering the effect of s.46 it must first be noted how copyright protection can apply to industrial designs apart from the effect of s.46.

Copyright protection arises automatically upon the creation of one of the specific types of "work" which are qualified for protection under the Copyright Act. The most relevant type of work for industrial designs is the "artistic work,"[2] defined as follows:

> "'artistic work' includes works of painting, drawing, sculpture and artistic craftsmanship and architectural works of art and engravings and photographs."[3]

The above definition of artistic work can result in the extension of copyright protection to industrial designs in two main ways. First, the above definition will include within copyright protection many two-dimensional and three-dimensional works, originally created simply as artistic works, that are later applied to functional articles as industrial designs. For example, a work done originally as a two-dimensional artistic work, such as a drawing or painting, might later be applied as ornamentation to the surface of a functional article, for example a dinner plate, and be reproduced many times in that form. Similarly, a work originally produced simply as a three-dimensional sculpture might later be applied to a utilitarian article, such as a lampbase, and be mass produced as such.[4] The Copyright Act provides that a work is infringed when any substantial part of it is reproduced in "any material form whatever,"[5] and there can be no doubt that the reproduction of the original artistic works applied to functional articles in the manner suggested above is within the scope of copyright protection for those artistic works.[6]

The second way in which copyright might extend to industrial designs stems from the fact that many industrial designs begin with a drawing or sketch done by the designer. Such drawings or sketches are themselves artistic works protected under the Copyright Act. The previously mentioned provision defining copyright infringement as the reproduction of a protected work in any material from whatever has been interpreted to apply to the reproduction of protected works in different dimensions, for example a two-dimensional drawing of an object being reproduced as a three-dimensional object. The result is that any industrial design which originates as a drawing (as will very often be the case) is protected as an artistic work (a drawing) under copyright and may be infringed by the production of three-dimensional objects which copy the drawing.[7] A leading English case applying this law involves the defendants manufacturing plastic knock-down drawers for the furniture industry which were found to have been copied from drawers produced by the plaintiffs, the designs for which originated in drawings done by the plaintiffs. The court found that the defendants infringed the copyright in the plaintiffs' drawings by its manufacture of drawers.[8]

The Canadian Copyright Act, s.46(1) is designed to exclude from copyright protection designs which are capable of receiving industrial design protection. Subsection 46(1) reads:

> This Act does not apply to designs capable of being registered under the Industrial Design Act, except designs that, though capable of being so registered, are not used or intended to be used as models or patterns to be multiplied by any industrial process.

Subsection 46(1), however, permits many industrial designs to receive copyright protection. First, it should be noted that the only designs that are excluded from copyright protection by s.46(1) are those which are capable of being registered under the Industrial Design Act. Consequently, designs which are not registrable, for example because their features are dictated solely by the functions the articles to which the designs are applied have to perform,[9] or because they are not novel,[10] would receive copyright protection. Some commentators have viewed it as anomalous that a design which does not qualify for industrial design protection should nevertheless receive copyright protection.

Furthermore, even when a design is capable of registration under the Industrial Design Act, subsection 46(1) provides that the design may receive copyright protection provided that the design is not used or intended to be used as a model or pattern to be multiplied by any industrial process. Subsection 46(2) permits the enactment of rules for determining when a design shall be deemed to be used as a pattern to be multiplied by an industrial process. Industrial Designs Rules, Rule 11 deems a design to be used as a pattern to be multiplied by an industrial process *inter alia*, "...where the design is reproduced or intended to be reproduced in more than 50 single articles...." The courts have held that the only relevant time for applying the test of use or intention to use as a model for industrial reproduction is the time at which the design was originally created.[11] Thus if there was no intention to use a design as a model to be reproduced more than 50 times at the time the design was originally created, the design would receive copyright protection and that protection would not be lost if the design were later used as a pattern for industrial reproduction.

A design that was not originally intended as a model for industrial reproduction and so was qualified for copyright, which is later applied to be industrially reproduced, can also be protected under the Industrial Design Act.[12] The result in such circumstances is that two forms of protection exist for the same design for which there will be different periods and extent of protection. One practical result in this situation is that the industrial design registration may expire, but the design will not be able to be copied without infringing because the design is still subject to copyright protection. Further in these situations the design registration and the copyright for the same design may be owned by different persons, for example, when the design registration has been assigned. In this latter circumstance an infringer is potentially liable to both the owner of copyright and to the owner of the industrial design registration.[13]

3. Definition of Design: Application to Utilitarian Articles

It is essential to establish a definition of "industrial design" so as to be able to evaluate the extent to which industrial designs ought to be protected by copyright. We have earlier noted that the lack of a definition in the Canadian industrial design statute led our courts to adapt the British statute definition to Canadian law.[14] Reference to the British definition, together with reference to s.46 of the Canadian *Copyright Act*, can permit us to formulate a general definition of industrial designs that are excluded from copyright protection under present Canadian law. That definition is: "features of appearance to be applied to an "article"15 to be multiplied more than fifty times by an "industrial process."16

Such a definition does not clearly indicate what such designs are, and it does not appear to reflect any clear policy as to why such designs ought not to receive copyright protection. The reference to features of appearance applied simply to an "article" fails to distinguish articles bearing industrial designs from articles typically thought to embody copyright-protected artistic works such as paintings, sculptures or engravings. The reference to reproduction by "industrial processes" fails to distinguish industrial designs from the myriad of industrially reproduced copyright protected works such as books, music or photographs. Similarly the reference to reproduction beyond a certain number of copies (50 in Rule 11) fails to provide any understandable distinction between industrial designs and works protected by copyright which are frequently reproduced in such numbers.17

In fact in the law on the British definition of design as developed by the courts [and therefore in Canadian law which has adapted the British definition] it was quickly recognized that reference to designs being applied simply to an "article," no matter how many times it was required to be reproduced, failed completely to distinguish industrial design from copyright. Consequently, it was ruled that an "article," "...to be within the definition [of industrial design] had to have some purpose other than that of merely carrying the ornament."18 The essence of the distinction between copyright-protected works and industrial designs is, then, that the latter are features of appearance applied to *functional* or *utilitarian* articles. In order to distinguish articles bearing industrial designs from articles bearing copyright works (the latter clearly also having function and utility), "functional articles" have to be defined as having some function or utility other than merely to portray the appearance of the article or to be contemplated, and other than merely to convey information.19

4. Power To Make Regulations Excluding Subject Matter From Industrial Design Protection

The definition of industrial design as features of appearance applied to articles having some function other than merely to portray the appearance of the article or to be contemplated, and other than merely to convey information, may still leave doubt as to whether some particular articles are within the subject matter of industrial design. The largest area of difficulty appears to be with articles that may have some function beyond those expressly excluded by the proposed definition of industrial design, but if they do, that function seems closely related to the excluded functions. In addition, these articles are often physically very similar to other articles which are clearly simply copies of works properly protected by copyright and excluded from industrial design protection. Examples of these problem articles are greeting cards, picture postcards and calendars.[20]

The current British designs legislation contains a provision which permits the enactment of rules to exclude from protection under the designs statute designs for articles that are "primarily literary or artistic in character" to deal with the type of material referred to above.[21]

It should be noted that under British law (and therefore under the present Canadian law) the position of works of sculpture under copyright and industrial design law has proved particularly difficult.[22] It appears that the U.K. courts took the view that all sculptures, if they were intended to be reproduced more than 50 times when made, were qualified for registration under the industrial design legislation and therefore disqualified from copyright protection by the pre-1956 U.K. statutory equivalent of the Canadian Copyright Act, s.46.[23] That position was enshrined in a rule in the U.K. Designs Rules 1949.[24] The Johnston Committee criticized the rule, noting that it implied that a sculpture of which less than 50 copies were made was primarily artistic whereas one of which more than 50 copies were made was not. "The scale on which a work is exploited has nothing to do with the literary or artistic character of the work."[25]

Sculptures ought to be treated like all other artistic works such that if they are applied to a utilitarian article, an industrial design is created which can be protected under the industrial design statute. However, we do not believe that a sculpture which has not been applied to a utilitarian article ought to lose copyright regardless of the number of times it is reproduced.[26] This would put the copyright and industrial design protection of sculptures on the same footing as other works protected by copyright.[27]

The same approach should be applied to "works of artistic craftsmanship" which are a further type of work protected under the copyright legislation. If such a work were applied to a utilitarian article it would in that form constitute an industrial design and could be protected under the industrial design statute.[28] If such work were never applied to a utilitarian article it would not lose copyright protection no matter how many times reproduced.

The proposed definition of industrial design should provide greater certainty in establishing the scope of the subject matter of industrial design protection and in distinguishing it from the subject matter of copyright protection. Nevertheless it would be desirable to include in the industrial design statute the power to deem designs applied to types of articles to be within or without the scope of industrial design. Such a power would permit the enactment of regulations when thought desirable to clarify the status of articles that appeared to be on the borderline between industrial designs and artistic or literary works that should be protected exclusively by copyright.[29] In addition, such rules could be used to exclude designs applied to certain types of articles from the subject matter of industrial design protection when it is concluded that industrial design protection is undesirable.[30] An alternative to having only a statutory provision giving a power to make regulations to exclude material from the subject matter of industrial design, would be to provide express exceptions in the statute to exclude that subject matter which it is agreed at the time of enactment ought to be permanently excluded and to use the regulation-making power to deal with changing circumstances over time which warrant modifications in the excluded subject matter.[31]

5. Should Copyright Protection Apply to Industrial Designs?

(a) Arguments That Have Been Given As to Why Copyright Ought to Apply to Industrial Designs.

Critics of the various attempts to exclude industrial designs from copyright protection have asked why a drawing, for example, may be protected under copyright although reproduced a million times as a print, but when reproduced a hundred times on a plate it becomes subjected to a different, and often lesser, form of protection under industrial design. It is argued that whatever are seen as the reasons for granting copyright protection--whether based on a view of the moral entitlement of the artist or on some economic analysis of necessary incentives to avoid "market failure"--those reasons apply as much to the reproduction of the original work as a plate as they do to the reproduction of the work as a print.

A second observation is that many view even those designs which originate exclusively as designs for functional articles, e.g., a new, contemporary design for a chair, as being as much artistic works deserving of ordinary copyright protection (whether as a moral entitlement or an economic incentive) as are works of the fine arts. Those who adopt this view suggest that the effort to distinguish the fine arts from the applied arts that is apparent in the copyright/industrial design distinction is indefensible in principle and frequently unworkable in practice.[32]

(b) Reasons Why Copyright Should Not apply to Industrial Designs

One of the most important, and frequently cited, reasons for not permitting ordinary copyright to extend to industrial designs is that the copyright term of protection, the life of the author plus fifty years, is too long for industrial designs.[33] In the analysis of the effect of the present industrial design system which has the much shorter term of a maximum of ten years from registration it was concluded that it was impossible to demonstrate that any increase in the level of protection for industrial designs would greatly influence the amount of design activity, and also that it was impossible to demonstrate that an increase in design activity would increase net social welfare.[34] This would militate against extending copyright protecton to industrial designs excluded from such protection under the present Canadian law.

The recognition of the possibility of extending copyright protection to many industrial designs through the copyright protection claimed for the drawings of such designs is fairly recent in Canadian practice and the existence of such protection is still somewhat uncertain.[35] Consequently, we do not believe that the existence of the possibility of such protection has played any significant role in stimulating Canadian industrial design activity. If a revised Canadian law were clearly to extend copyright protection to such a scope for drawings for industrial designs it would amount, for all practical purposes, to a new extension of copyright protection to industrial designs. Consequently, we do not recommend such an extension for the reasons suggested in our earlier analysis.[36]

The availability of copyright protection under present Canadian law to industrial designs that are derived from artistic works not originally intended for use as industrial designs,[37] provides the longer copyright term of protection for that type of horizontal product innovation that we concluded was least likely to promote an increase in net social welfare.[38] Further, given the difficulties that we have identified above,[39] and other problems that we outline below,[40] with the application of copyright to industrial designs we believe that present extension of copyright to such designs is undesirable.[41]

The second fundamental objection to applying ordinary copyright to industrial designs is the fact that copyright protection arises automatically upon the creation of the protected work without any requirement of registration or deposit of the design in a public register as a condition of protection.[42] In addition there can be no requirement of marking or notice of copyright protection being claimed on copies of the protected work in circulation.[43] The lack of registration or deposit removes the only effective method by which the public can determine whether protection is claimed for a particular design, or whether it can safely be copied as no protection is claimed or any protection which was once claimed has expired or otherwise been lost. The lack of any copyright notice on products in circulation prevents the use of this device as a substitute for, or supplement to, a register as a method for giving notice to would-be copiers of claims for copyright protection.

The lack of any register also removes the possibility of checking exactly what is claimed as the protected design and removes the role of a registrar in rejecting for registration those designs that are not qualified for protection.[44] The fact that protection arises automatically, without any review of the actual availability of protection by a registrar prior to a claim for protection being able to be asserted, can lead to the mistaken or deliberate assertion of protection in circumstances where none is in fact available. Such claims would harrass competitors and tend to suppress competition.[45]

We believe that the difficulties caused by the too-long term of copyright protection and the lack of registration, deposit or marking when copyright is applied to industrial designs are compounded by the limited scope for originality that is encountered in respect of many products to which designs are applied.[46] It has been observed that the functional requirements of articles, the expectations of consumers as to fashionable or even acceptable appearances for products, and the "limited amount of basic shapes such as circles, squares, rectangles and ellipses"[47] available for designs restrict the range of feasible designs for any product. While these comments are made most frequently in relation to designs for the shapes of articles, we believe they also apply to a considerable degree to designs in the form of pattern or ornamentation applied to the surface of articles.[48]

We do not believe that there is an adequate response to the problem posed above in the observation that copyright only protects against copying, and that all that a manufacturer would have to do to avoid an accusation of infringement would be not to copy. This response is unsatisfying for two reasons. First, given the limited range of originality possible in respect of the designs for many products, a manufacturer may often develop designs without copying that are much like existing designs which may lead to an allegation that it has copied.[49] Further, the response does not give adequate weight to the fact that the simulation of competitors' designs is a widespread and desirable mode of competition. Such simulation takes not the original design itself but the style or fashion. There may be great difficulties in particular cases in determining whether the earlier design has in fact been copied or whether just the style has been taken.[50] In the light of such difficulties, granting automatic protection for a very long term to all designs could exacerbate the difficulties enormously.

A further objection to the application of copyright to industrial design is that the remedy for copyright infringement which deems all infringing copies to be the property of the copyright owner is unreasonable when applied to industrial designs. This rule could result in forfeiture to a design owner of large quantities of objects bearing an infringing design where the design contributed a very small portion of the value of the objects and where the value of the objects forfeited greatly exceeded any economic loss to the design owner through the infringement.[51]

The above analysis indicates why it is recommended that ordinary copyright protection not be permitted to extend to industrial designs.

6. Recommended Approach to the Relationship Between Copyright and Industrial Design

(a) Dual Protection Rejected

As noted above[52] the present Canadian law permits dual protection of some industrial designs, that is protection under both the Copyright Act and the Industrial Design Act. The existence of such dual protection can lead to difficulties when the ownership of each type of protection for one design may be in different hands, for example through the asignment of one type of protection. In such instances

It would appear that a would-be user of the design would have to secure licences from the owners of both types of protection and that any infringer would be liable to the owners both of the copyright and of the industrial design registration. Further it seems anomalous, and it may be misleading of the public, that upon the expiration of the industrial design registration (a maximum of ten years from registration) the public is not free to use the design as the copyright protection would still continue (for a term of life of the author plus 50 years).[53]

In the light of these problems it is recommended that dual protection, i.e., industrial design plus copyright, ought not to be available for industrial designs.

(b) Intent as a Criterion Rejected

As indicated[54] the present Canadian law distinguishes between designs that may receive protection exclusively under the Industrial Design Act and designs that may receive copyright protection on the basis of the intention of the creator of the design at the time the design, or the artistic work which is applied as the design, is created. If the intention of the creator at that time was that the design be used as a model for industrial reproduction,[55] the design can qualify only for protection under the industrial design statute. If there was no such intention at the time the design or artistic work was created, but the design or work was later applied as a model for such reproduction the design qualified for copyright protection as well.

It has been observed that this distinction in available protection based on such a test of intention yields inequitable results. It appears unfair that some designs automatically qualify upon creation for protection for a period of the life of the creator plus fifty years under copyright, while other receive a maximum of ten year protection upon condition that they are registered under the Industrial Design Act.[56] The unfairness in the differential treatment seems particularly evident when it is observed that many designs created by designers who intend them to be industrially reproduced are similar in type to many designs taken from works created by artists who did not originally intend that their works be reproduced on functional objects.[57]

A further objection to basing the difference in protection offered designs on the original intention of the creators is that it may frequently be very difficult for the public to determine what was the original intention of the creator.

This may be especially true in Canada as a large number of designs in use in Canada have originated in foreign countries which may exacerbate the difficulties of Canadians in discovering the designers' original intents. The result of such difficulty, of course, is difficulty in determining the status of protection for a particular design and thus whether one is free to copy such design.

The problems noted above lead to the recommendation that the Canadian law not differentiate the protection offered industrial designs on the basis of the original intention of the creator of the design.[58]

(c) Application to Reproduction as Utilitarian Articles as the Criterion

i) Introduction

The analysis above has suggested that copyright ought not to apply to industrial designs where "industrial design" is defined as the appearance of utilitarian articles.[59] Consequently the criterion by which it ought to be decided whether to exclude the availability of copyright protection ought to be the application of the design, or the artistic work as a design, to utilitarian articles. This was the basic approach recommended by the Gregory Committee in 1952 for adoption by the U.K.[60] and which was substantially adopted as s.10 of the U.K. Copyright Act 1956. The Ilsley Royal Commission on Copyright recommended the adoption of a similar approach in Canadian law in 1957.[61]

The proposal is that copyright protection not apply to industrial designs, or to artistic works when applied as industrial designs, where the test of being an industrial design is application to utilitarian articles. Application of the work or design to utilitarian articles can occur in one of two ways: first, through registration of the work or design as an industrial design under the Industrial Design Act, or second, through the actual use, marketing or other publication of useful articles bearing the design where no industrial design registration has been obtained.

The owner of copyright in any work will have the power to exercise his copyright so as to prevent the application of the work to functional articles (through registration of the work as an industrial design or through the marketing of functional articles bearing the work as a design) without his consent. Consequently the owner of copyright in a work will be able to prevent the loss of copyright that would arise through the commercialization of the work in the form of an industrial design.[62] However if the copyright owner authorizes the application of the artistic work for use, marketing or publication as an industrial design, to retain protection for the work as such an industrial design, the design would have to be registered under the Industrial Design Act as copyright protection would cease to extend to the use of the artistic work as such an industrial design. The Gregory Committee noted that the advantage in the proposal was in the fact that the owner of copyright in such an artistic work, "...could not, by refraining from registering his design and resting on his copyright, enjoy protection for the industrial design for a longer period than that granted by the [Industrial Design Act]." In addition, "...the public would know that designs for industrial articles, once they had been exploited and any registration had expired, were no longer the subject of copyright but were in the public domain."[63]

We intend the scheme of loss of copyright protection proposed to apply to all types of works protected by copyright that are applied as industrial designs. This would include works originally created as artistic works which at some time during the period they are ordinarily protected by copyright are applied as industrial designs in one of the two ways suggested above. When, and to the extent that such works are so applied as industrial designs copyright protection would cease to apply to the design so created. The proposal is also intended to apply to drawings or plans for industrial designs, which now receive copyright protection, which would lose copyright protection for reproduction of the design applied to utilitarian articles either when the design is registered under the Industrial Design Act or when utilitarian articles featuring the design are marketed.

ii) Scope of Loss of Copyright

The Gregory Committee noted that some care would have to be taken in defining the scope of loss of copyright under their proposals.[64] In the case in which the owner of copyright did not register an industrial design but permitted a corresponding design to be marketed the Committee believed that limiting the loss of copyright to the particular designs and articles actually marketed would cause the public difficulty in determining the area over which copyright had been lost. As an example the Committee gave the case of an artistic work applied to a metal box as a design in which case the public would be uncertain as to whether copyright protection would still be applicable to the application of the work as a design, "...to boxes of other material or to other kinds of containers."[65] As a result the Committee recommended that when an artistic work was marketed as an industrial design without a design registration being obtained that the loss of copyright should extend to, "...all associated designs, that is, the same design applied to other articles and modifications or variations of the design not sufficient to alter its character or substantially to affect its identity."[66] The Committee also recommended that the same scope of loss of copyright should apply upon the expiry of the industrial design registration in the case where the owner of copyright in an artistic work had registered a corresponding industrial design. The Committee saw the scope of loss of copyright in this instance as the same as the scope of loss of industrial design protection upon the expiry of a design registration under the existing design law. Thus the loss of copyright and industrial design protection would be made co-terminal.[67]

A further concern with defining the scope of loss of copyright is to ensure that the loss of copyright is sufficiently broad to permit reproduction of the design in all those forms reasonably necessary for one who wishes to reproduce and market the design for which copyright has been lost. In particular, in every instance when the proposal requires a loss of copyright, it ought to be clear that copyright can no longer be asserted not only in relation to the actual reproduction of the design on functional articles, but also in relation to all forms of reproduction of the design reasonably necessary to make and to market such articles, such as engineering or production drawings, advertising and catalogues.[68]

iii) Loss of Copyright Through Registration as Industrial Design

Adoption of the approach proposed would require two main provisions in the Copyright Act; one providing for the loss of copyright where a design is registered under the Industrial Design Act, and one providing for loss of copyright where the design is marketed without an industrial design registration being secured. The first main provision[69] should provide that when copyright subsists in a work[70] and a corresponding industrial design is registered, it shall not be infringement of copyright in the work to do anything within the scope of protection acquired under the industrial design registration[71] during the term of that registration. This provision would further stipulate that when the industrial design registration had terminated the loss of copyright would be broadened to apply to the copyright as extended to all associated designs and articles.[72]

In drafting the U.K. Copyright Act, 1956, s.10(1) a problem was addressed that had not been noted in the Gregory Committee Report, i.e., what should happen to copyright protection if someone other than the owner of copyright registered a corresponding industrial design without the consent of the copyright owner. Such a registration would, of course, be subject to cancellation in an action brought by the copyright owner. However, as long as the registration remained the public would believe that copyright had been lost in respect of the design and that they could, for example, safely rely on a licence granted by the registered design owner. If copyright were permitted to continue on the basis that the design registration was improper, such persons would find themselves subject to a copyright infringement action by the owner of copyright. In addition, when the term of the registration expired, the public would believe that copyright had been lost for all associated designs.

The drafters of the U.K. Act sought a compromise between the interests of the two innocent parties, i.e., the copyright owner and members of the public who rely on the registration.[73] The registration of a corresponding design even without the consent of the copyright owner causes a loss of copyright in respect of the registered design. However the copyright owner may act to cancel such registration at any time until the term of the registration has expired. If the copyright owner fails to act within that period, he will be precluded from recovering the lost copyright protection. If the registration is cancelled, the copyright is revived retroactively. However, a defence to a copyright infringement action is provided to anyone who acted in good faith in reliance upon the industrial design registration and the corresponding loss of copyright.

The British approach to the difficult problem of balancing the interests of innocent parties is reasonable and it is recommended that a similar approach be adopted in Canadian law.[74]

iv) Loss of Copyright Through Publication, Use or Marketing of Industrial Design

The second main provision of the proposed scheme should stipulate that when the owner of copyright in a work authorizes the use, marketing or publication of articles bearing a corresponding industrial design without an industrial design registration being sought, it is deemed not to be an infringement of copyright to reproduce articles bearing such design or any associated design.[75]

In drafting this second main provision care will have to be taken to avoid difficulties that have arisen in interpreting the equivalent provision in the U.K. Copyright Act 1956.[76] That section has been interpreted to mean that when articles are marketed bearing a design that would not be registrable under the U.K. Registered Designs Act 1949, for example because the features of the design are dictated solely by function, that the provision for loss of copyright protection does not apply.[77] The result is that copyright protection (based largely on drawings made for the designs) is extended to large numbers of highly functional designs that would not qualify for industrial design protection. As noted above[78] copyright protection ought not to extend to any industrial design, and this is so whether the design is registrable or not.

In order to achieve the result recommended above in this second main provision, it will, of course, not be possible, as did the original U.K. Act s.10(2), (3), to draft the provision by reference to the marketing of an "industrial design" as defined in the industrial design statute as that concept is limited to registrable designs and it is necessary to provide that copyright protection is lost for all industrial designs, broadly defined. Similarly, it will not be possible to define the scope of loss of copyright, as did the original U.K. Act ss.10(2), (3) by reference to the scope of protection under the design statute had the design been registered.

This second main provision ought to provide that when copyright exists in a work and that work is published as a corresponding industrial design with the consent of the copyright owner,[79] and no registration has been obtained under the industrial design statute, that it shall not be infringement of copyright in the work to do the things further set out in the provision. The section must provide a definition of "industrial design" for the purposes of the section. That definition should provide that an industrial design is any feature or features of the appearance of a utilitarian article or of any part of a utilitarian article whether or not such features are ordinarily visible when such article is used or purchased.[80] "Utilitarian article" would be defined in the same way as suggested in the definition of industrial design, above, as qualified by any regulations made under the power to make regulations to exclude matter from industrial design protection.[81] The scope of loss of copyright ought to be extended to all associated designs and articles,[82] ought to include expressly all forms of reproduction and use of such designs that would be included within the scope of design protection under the industrial design statute and ought to include those rights to use the designs reasonably necessary to make and to market the designs referred to above.[83]

The second main provision ought to state that the loss of copyright will take effect upon the publication of the design, or the use or marketing of articles bearing the design with the consent of the copyright owner in the place where publication occurs. "Publication" ought to be defined in the manner in which publication is defined generally under the industrial design statute.[84] While it appears that "publication" may include all forms of commercial dealing with articles bearing the design,[85] if there is any doubt that publication would not extend to all forms of sale, letting for hire, or offering for sale or for hire, then the section ought to be broadly enough drafted to include those activities.[86]

Note that the section ought to provide that copyright is lost when articles bearing the design are used, other than in an experimental fashion, with the consent of the copyright owner.[87] This would include instances of "private" use of articles bearing designs (recall that designs in this context are defined very broadly to include functional designs[88]) such as the use of production machinery by a business in circumstances in which the machinery, and the design therefore, might not be published within the meaning suggested above and when the machinery was not published by being offered for sale or hire to others. The effect of such a provision would be to prevent the unacceptable extension of copyright protection to cases where there is an attempt to use it to bolster, or as an alternative to, trade secret protection.[89]

It is not proposed that any test of a minimum number of articles bearing the design having been produced for use or marketing be introduced in order to have the loss of copyright under the proposed second main provision apply. It will be recalled that the U.K. law, by regulation, requires that more than fifty articles bearing the design be reproduced before the equivalent loss of copyright provision applies.[90] Such a minimum number is inappropriate when the article bearing the design is not likely to be reproduced more than fifty times even if extensively commercially exploited. While the preceding comment applies to some purely decorative designs, it should be recalled again that "designs" in this context are defined widely to include functional designs (so as to ensure that copyright cannot be used to protect such designs), and that a minimum production number of fifty would be particularly inappropriate for some such designs, *e.g.*, those for large pieces of industrial machinery. It is intended that the loss-of-copyright provision apply whenever a single article bearing the design has been produced for use[91] or marketing, in addition to instances of the publication of the design.

The present U.K. Copyright Act 1956, s.10(2) (b) provides that copyright is lost in respect of a design when the design is applied industrially and the articles bearing the design are marketed, "whether in the United Kingdom or elsewhere."[92] It is proposed that the loss of copyright under the second main provision occur when articles bearing the design have been used or marketed, or the design published, in countries other than Canada with the consent of the copyright owner in the place in which publication occurred. However the detail of this aspect of this provision must be consistent with the recommendations on exhaustion of design rights and the effect of publication on the right to register a design made below.[93] Consequently, discussion of these issues is left to the later section on parallel importation and exhaustion.

The Franki Committee noted that when an article bearing a design derived from a copyright protected work had been marketed domestically or, particularly in a foreign country, it might be difficult for a defendant in a copyright infringement action, who was alleged to have infringed by producing such articles bearing the design, to establish its defence under the above provision as it might be difficult to establish that the design had originally been reproduced and marketed with the consent of the copyright owner.[94] Consequently, it is recommended that a provision similar to that recommended by the Franki Committee be introduced into the copyright statute which would provide that in such an action when the defendant establishes that its alleged infringing reproduction of the design did not occur until after the design had already been reproduced for use, marketing, or publishing whether in Canada or elsewhere, it shall constitute *prima facie* evidence that such earlier reproduction and publication etc. was with the consent of the copyright owner.

Above[95] the enactment of a regulation-making power was proposed in order to permit rules which would determine more clearly the boundary between industrial designs and material to be protected exclusively as works under copyright. The purpose of those rules was to exclude from the definition of industrial design those things which were not industrial designs, as the articles to which the features of appearance had been applied were not functional or utilitarian articles in the sense required to have an industrial design.[96]

The Gregory Committee made a special recommendation for the case in which an application for registration of an industrial design is refused on the basis that it was excluded by such a rule. Upon such a refusal the owner of copyright would believe that it could safely market the product bearing the artistic work protected by copyright without fear of losing copyright under the legislative scheme we have proposed. This would be so since the effect of the Registrar's refusal to register is that the product bearing the artistic work is not an industrial design at all[97] and therefore would not be subject to the provision for loss of copyright upon the marketing of a design without a registration.

The Gregory Committee believed that it would be unfair if in such a case in a copyright infringement proceeding a court were to hold that the Registrar had been mistaken and that the product bearing the artistic work was in fact an industrial design. The apparent result of such a holding would be that the copyright would be lost under the proposed provision that the marketing of a design without registration causes loss of copyright. Of course there would be no protection under industrial design as no registration would exist.[98] To avoid this unfairness the Committee recommended that a decision of the Registrar of Industrial Design that an application for registration be rejected on the basis that the applied for design was not an industrial design under the proposed rules should prevent the loss of copyright if the design is later marketed.[99] A similar provision should appear in the revised Canadian industrial design statute in the form of a section which provides that a rejection of an application to register an industrial design on any ground that the design was not applied to a utilitarian article (whether the proposed rules were referred to or not in such rejection) should prevent the loss of copyright if the design is later marketed.[100]

A final observation should be made on the scope of the loss of copyright intended to occur when a copyright protected work is applied as an industrial design through registration as an industrial design or through the publication of the design, or the use of marketing or products bearing the design. It is intended that copyright be lost only to the extent proposed above, _i.e._, generally, sufficiently broadly to prevent copyright from being asserted to prevent the exploitation of the industrial design as such (_i.e._, as applied to utilitarian articles). It is not intended that there be any broader loss of copyright, _e.g._, in reference to the reproduction of the artistic work as an artistic work unrelated to any exploitation as an industrial design.

(d) Technology as Art: Further Amendments to the Copyright Act

i) Remaining Problems of the Extension of Copyright Protection to Functional Elements of Designs

The recommendations made above are designed, (i) to ensure that there will be no dual protection (copyright plus industrial design) for industrial designs, (ii) to provide as a basis for the loss of copyright protection the actual application of a copyright protected work to industrial design, and (iii) to limit the potential unreasonable extension of copyright to operational features of designs. It remains to assess whether the above recommendations will provide adequately for the latter objective, i.e., limiting the application of copyright to operational features.

Above it was proposed that when a copyright protected work is applied as a corresponding industrial design and an industrial design registration is secured for such design, the loss of copyright protection is limited to the scope of the acquired industrial design protection.[101] Of course this type of design, from the very fact that it has proved registrable by meeting the proposed tests of being a design for the mere appearance of an article and not being primarily dictated by function, will tend not to present serious problems of the extension of copyright to the functional features of designs. However, such designs may present some problems of the extension of copyright to functional aspects of designs to the extent that the exclusion of functional aspects of designs in the industrial design act were interpreted not to exclude totally functional elements of the designs. While copyright will be terminated during the registration of the design in respect of the corresponding design registered, it will not be terminated in respect of the design applied to other articles. If the design applied to other articles has some functional elements, the availability of copyright protection for the design so applied may present some potential problems of applying copyright to such functional elements of the designs.

However, the case of the copyright protected work applied as a corresponding industrial design, when the design would not have been registrable because of its inclusion of elements dictated by function, obviously presents the most serious potential problem of the extension of copyright to protect functional elements of industrial designs. The proposal made above for the loss of copyright when a copyright protected work is applied as a corresponding industrial design by publication, or reproduction for use or marketing, will go a substantial way to preventing attempts to use copyright to protect functional elements of design.[102] Nevertheless the proposal will not be adequate in itself to exclude every possibility for attempting to assert copyright to protect the functional aspects of such designs. In particular, the loss of copyright will not apply when the copyright protected work, while it has been applied as an industrial design, has not been published nor reproduced as an industrial design for use or marketing. In such circumstances the above proposal for loss of copyright would not apply and there may be efforts to use copyright as an alternative to, or to bolster, claims that would otherwise be based on the law of trade secrets or confidential information, if they could be made at all.[103]

(ii) The Definition of "Artistic Work"

(a) Present Canadian Law

Before considering what, if any, further amendments ought to be made to the Canadian copyright statute the extent to which present Canadian copyright protection could extend to the functional features of designs should be assessed more carefully. As we have noted earlier[104] the concern about the possible extension of copyright protection to functional features of industrial designs arises out of a series of U.K. cases interpreting the U.K. copyright legislation which appear to have extended copyright protection to designs for articles which are primarily, if not purely, functional.[105] The impact of these decisions, despite comments to the contrary made in some of the cases by the courts, is that copyright has been extended to the functional aspects of the designs and the articles to which they are applied.[106]

It is not clear how far the interpretations developed in these cases could apply to present Canadian copyright law. The first issue concerning the applicability of these decisions in Canada is whether all technical drawings can be regarded as "artistic works" under the Canadian statute. It is unlikely that there is any requirement under Canadian copyright law that an artistic work possess any minimum degree of artistic merit in the sense of being good art as opposed to bad art.[107] However, there is a requirement that the work be of an artistic type or character.

The meaning of the latter requirement, however, may be uncertain. The Canadian copyright statute was derived from and is quite similar to the U.K. 1911 copyright legislation. It has been suggested that under the U.K. 1911 act "artistic" meant simply that the work had to be one created by one of the processes indicated in the listed categories set out in the definition of artistic work, i.e., drawing, painting, sculpting, etc.[108] Further it is suggested "artistic" had a meaning similar to "literary" in reference to "literary works" which did not refer to literary "quality," "style" or "finish," but simply to anything in print or writing.[109]

However, another possible view of the meaning of "artistic" in the context of "artistic work" is that it requires at least some intent on the part of the artist to appeal to the sense of aesthetic appreciation. In rejecting a claim that a particular thing was a "work of artistic craftsmanship" (one of the listed types of artistic work in the statutory definition of the latter) one Canadian judge said that the claimed work was,

> "...never intended primarily as an article regarded as artistic or beautiful in itself even if the artistic requirements here are not too great. Indeed, even if artistic merit is not a matter of great importance in copyright law the work artistic must still be given its ordinary meaning..."[110]

In 1952 the U.K. Gregory Committee noted the uncertainty about the meaning of "artistic work" under the 1911 legislation and recommended that the uncertainty be resolved by making it clear that the former meaning of artistic was intended. As a result, the U.K. Copyright Act 1956 defines drawings and other works to be artistic works, "irrespective of artistic quality."[111] The U.K. cases referred to above, applying copyright protection to designs for functional objects, were all decided on the basis that the drawings for the designs were artistic works under the above 1956 statute definition. The Canadian copyright statute has no such express qualification written into its definition of "artistic work." It is not clear whether the Canadian statute's definition of artistic work would receive the same interpretation as the 1956 U.K. statute definition in the light of this difference.[112]

If the Canadian statute definition of artistic work were to receive the interpretation which requires appeal to the aesthetic senses it would not in itself exclude from copyright protection industrial designs that are now protected under the Industrial Design Act since such designs must be directed toward enhancing the visual appeal of the articles to which they are applied. However, this view of artistic work would prevent the application of copyright to designs which had no visual appeal and which were purely functional. However, if the Canadian statute were to receive the same interpretation as the U.K. 1956 legislation all designs for functional objects would be protected as artistic works (provided that they originated as a "drawing" or other protected type of work), even, perhaps, those designs which would be precluded from protection under the industrial design statute because they were dictated by function.

(b) Recommendations

Both the Ilsley Royal Commission and Copyright in Canada recommended that Canadian copyright law be amended to make it clear that artistic works were protected "irrespective of artistic quality."[113] In the light of the interpretation that phrase has received in the U.K. we disagree with that recommendation.

The Canadian copyright legislation should not be amended so as to exclude a requirement that artistic works be of an artistic character, and if there is any doubt that such a requirement is a part of our present law[114] the statute should be amended to make clear that there is such a requirement.

Those who argue for the inclusion of an "irrespective of artistic quality" phrase in the definition of artistic works often refer to the fact that they see no requirement of "literary quality" for literary works under the present law, and argue therefore that it is unreasonable to require artistic works to meet some special test not required of other types of works protected by copyright.[115] However, while it is clear there is, and ought to be, no requirement for some minimum literary merit, there is authority, and good reason, for finding a requirement of a literary character.[116]

In the case of artistic works, it has been recognized that the establishment of a requirement of artistic character is useful in limiting the unreasonable extension of copyright protection.[117] The potential unreasonableness is illustrated by the case of one type of artistic work, sculpture. Unless there is some requirement of an artistic character, there would be no reason why every man-made three-dimensional object would not be a sculpture, or a copy of a sculpture. It is the failure to recognize this type of phenomenon in the case of drawings which has led, in part, to the unreasonable extension of copyright protection to all forms of technical drawings under the U.K. law.[118]

It will be objected that the retention of a requirement that an artistic work be of an artistic character is undesirable because the latter concept is very difficult to define which will lead to uncertainty.[119] There is no question that the requirement of artistic character may be difficult to interpret and apply in some instances. However, as indicated below there is good reason for maintaining the requirement even at the cost of some uncertainty. The task of interpreting and applying difficult concepts in statutes must often be given to our courts and lawyers as the means of endeavouring to achieve desirable policy objectives,[120] Experience in Canada, Australia, the U.K. and the U.S.[121] has indicated that it is possible to interpret and to apply the concept of artistic character. It should be recalled again that the courts would not be asked to assess works for some minimum degree or quantity of artistic merit but simply that a work quality as having an artistic character.[122] Further, to the extent that the question of whether a work has an artistic character is not addressed in deciding whether it qualifies as subject matter for protection under the copyright statute, it will have to be addressed in another guise in assessing the question of whether there has been infringement. Consequently, the impression that we can avoid entirely a sometimes difficult and uncertain question by not requiring an artistic character as a qualification for protection is largely illusory.[123]

A further argument that may be presented against requiring an artistic character as a criterion of having a protectable artistic work is that the major reason for preserving the requirement, the desire to avoid copyright applying to purely functional designs, can be adequately dealt with in the definition of what constitutes infringement. It may be further argued that the present law of infringement under which only the form of expression and not the underlying concepts is protected is in fact adequate to ensure that copyright does not extend so as to protect unreasonably the functional aspects of designs. In addition, it may be suggested that if the present law of infringement is proving inadequate to prevent copyright applying to functional elements, the law of infringement could be elaborated in the statute so as to exclude effectively protection for functional aspects of designs.

The response to the above argument is first, that recent experience in the U.K. and New Zealand,[124] two countries with copyright law that is fundamentally similar to Canadian law, appears to indicate that the existing law defining the scope of protection of copyright may not be adequate to exclude protection for functional elements when it has been accepted that a work without artistic character can initially qualify as a protected artistic work. It may be that the existing law on the scope of protection was misapplied in the cases referred to in New Zealand and the U.K. and that protection ought not to have resulted for the functional aspects of the designs in question. However, the results do reflect the confusion that often arises in applying what can be a subtle and difficult distinction to apply in particular circumstances, *i.e.*, that between the substance of concepts and the form in which they are expressed. Specific statutory amendments to the law of infringement, while they may assist in emphasizing the importance of the distinction and may even contribute to some clarification of the concept, will not eliminate the difficulty of the concept itself and its application in many instances. As a result it would not be a satisfactory response to the problem of the possible extension of copyright to functional features of designs to rely solely on the present or an amended law of copyright infringement. A requirement of artistic character ought to be a part of the concept of protectable artistic works under the copyright law.[125]

It should be noted that the requirement of an artistic character for a work to be protected as an artistic work under copyright is not seen as a major device in itself for limiting the application of copyright to functional designs. It will probably only extend to exclude the purely, or perhaps primarily functional. Such a requirement would, nevertheless, play an important role in establishing the general approach to be taken to the protection of artistic works under the copyright statute. The experience in the U.K. and New Zealand indicate the effect on a court when it addresses the first issue to arise in an infringement action, *i.e.*, whether there is a protected work, and discovers an express statutory statement which seems to say that the copyright statute is not about the protection of artistic expression, but extends to, *e.g.*, the most purely functional plan or drawing. It is not, perhaps, surprising if that court when it comes to address the issue of the scope of protection of a protected work may tend to overlook that the statute is supposed to be about protecting original artistic expression and not technology or investments in improvements in the efficient functioning of useful articles. An express requirement of artistic character as a condition for protection of an artistic work would emphasize that it is the artistic expression, and not any underlying useful ideas that are to be protected.

(iii) Scope of Protection

(a) Introduction

The second area of copyright law that affects the extent to which copyright protection could be extended to industrial designs is the law on scope of protection or infringement.

It is widely argued that the present and long-established law of copyright, which is that copyright protects the form of expression and not the underlying ideas or concepts, will exclude copyright from applying to functional aspects of industrial designs.[126] If that concept in copyright is properly understood and applied this would be to a substantial extent true. However, the concept of the distinction between form of expression and underlying ideas is, "...one of the most misleading"[127] in copyright law. The extent to which copyright does provide some protection for underlying ideas and concepts is perhaps illustrated by considering a protected novel which is alleged to be infringed by another novel and recalling the extent to which the courts look not merely to the words of the first novel but to the plot, incidents and characterization in judging whether there has been infringement.

(b) U.K. Copyright Act 1956, s.9(8)

The Gregory Committee, particularly after having recommended that artistic works be protected without regard to artistic character, recognized the danger that, especially in the case of copyright in a drawing or plan for a utilitarian object, copyright could, "...be extended into fields far beyond its main or original intent and properly to be covered by other forms of protection if at all."[128] The Committee sought to deal with the potential problem by recommending that a section be introduced into the U.K. copyright statute which would provide that a reproduction of a protected work would not constitute infringement unless it was obvious to an "uninstructed" "layman" that the reproduction was a visible copy of the original work. This recommendation was enacted as s.9(8) of the U.K.

Copyright Act 1956[129]

It has been suggested that s.9(8) of the U.K. statute is merely an attempt to codify the established requirement that there must be a recognizable visual resemblance between the copy and the original work, and as such was unnecessary.[130] It is true that a strictly applied requirement of visual resemblance can play a significant role in limiting the extent to which copyright in drawings may protect functional aspects of designs by making it less likely that a particular article will be found to be a reproduction of a particular drawing.[131] However, the requirement of visual resemblance must be qualified by the principle that infringement occurs when there is less than an exact visual reproduction of the protected work provided that a "substantial part" of the work has been reproduced.[132] Further, when considering whether a substantial part has been copied the "quality" of what has been taken is frequently more important than the "quantity"[133] In addition account must be taken of doctrines such as that of a "colourable imitation" constituting infringement.[134] The concept of a visual reproduction of the original work which resulted from the application of such doctrines permitted the U.K. courts, in the face of s.9(8), to find that a three-dimensional article was an infringing copy of drawings that were, for example, exploded representations [135] or cross-sectional representations of the object.[136]

It has been recommended elsewhere that the Canadian copyright statute contain a provision like s.9(8) of the U.K. legislation.[137] The Gregory Committee stated that the purpose of s.9(8) was to ensure that copyright would not protect more in terms of methods of construction or features required by function than was possible under the designs legislation. That is the appropriate objective. However, the method proposed to achieve it appears ill-conceived and has proved to be largely unworkable. The requirement of a visible copy obvious to the layman is both too narrow and too broad in its potential effect in terms of excluding protection for functional elements. Some three-dimensional reproductions of articles in drawings that are readily evident as copies to a layman may present potential problems of copyright protection for functional features while other reproductions of drawings that are not readily evident to laymen may present no such problems. Section 9(8) has failed to do by indirection what ought to be done more directly.[138] Therefore the adoption of a provision like s.9(8) is not recommended.

(c) Other Recommendations

The making of recommendations for possible amendments to the copyright legislation to deal with the potential for the unreasonable use of copyright to protect functional aspects of industrial designs, is to some degree constrained by the fact that if the fundamental principles of copyright are properly understood and applied they would exclude many such objectionable extensions of copyright.[139] However, these principles are of considerale subtlety, if not complexity, and it ought not to be very surprising when knowledgeable people apply these same concepts but reach results in particular cases with which strong disagreement can be taken.

The cases indicated which occurred in the U.K. and New Zealand,[140] as well as other decisions in the U.S.[141] indicate that there is a real potential problem of the extension of copyright to protect the functional aspects of industrial designs. Those problems have arisen in cases where the courts appear to have formulated and extended a doctrine of "misappropriation" of another's commercial intangibles that goes beyond the appropriate scope of the copyright statute. Typically in such a case the court places considerable stress on the investment made by the plaintiff in the development of the thing which it alleges is a work subject to copyright protection.[142] In addition reference may be made to the substantial contribution of the plaintiff's development in overcoming some technical problem.[143] Further stress will be laid on the great commercial success attained by the plaintiff with its development.[144] Then the court will conclude that it is unfair, and furthermore infringement of copyright, for the defendant to "misappropriate" the fruits of the plaintiff's efforts by copying his work and particularly by using the copy to compete with the plaintiff.

It has been pointed out that once the courts begin to approach these cases in this way there is a serious difficulty in setting limits to the situations in which the doctrines will apply.[145] The very nature of competition requires that competitors be free to emulate and to copy each other. Rather than commencing from the position that copying is always *prima facie* wrong[146] and that to escape liability the defendant ought to demonstrate legal entitlement to copy as a number of recent court decisions appear to do the appropriate position for preserving a competitive economy, and the only position justified by the present law is that copying is *prima facie* allowed and that the plaintiff must demonstrate under the law why copying ought not to be permitted in the particular case.

The *prima facie* legality of copying is a doctrine which has underpinned this country's approach to the entire intellectual property field. In the field of patents, for example, (closely related to the concerns with functional designs being dealt with here) standards of novelty and inventiveness have been imposed as conditions of protection in addition to standards of disclosure and provisions directed at limiting abuse of the exclusive rights obtained. The whole patent system reflects a carefully worked out scheme establishing the ground rules under which copying in the industrial and technical field ought to be precluded.[147] The trend of extending copyright protection into this field evident in some jurisdictions represents an ad hoc expansion of the copyright system into fields it was not designed to reach, and for which it is then, not unexpectedly, ill suited.[148] Such trends ought not to be followed in Canada.

The possible scope of such extensions of the copyright system can be noted in the potential for copyright to displace in many circumstances actions that would otherwise be founded on the law of trade secrets or confidential information.[149] This is an undesirable development as the courts have developed the doctrines of trade secrets and confidential information with an effort to balance the various interests at stake including that of the public in competition.[150] While the present law of trade secrets and confidential information is not without problems, and may in itself be in need of a review of its internal workings and its relationships to the other areas of intellectual property, it does represent a superior method of reconciling such disputes to the application of the copyright system.

Given that any trend to extend copyright protection to functional aspects of designs is a misapplication of copyright principles, the only kind of recommendations that can be made beyond those made above concerning the relationship of copyright and industrial design are those which call for a statutory reaffirmation of such principles which have not before been codified in Canadian law.

Consideration should be given to introducing a provision in the Canadian copyright act similar to s.102(b) of the U.S. 1976 legislation which codifies the general principle that copyright protects only the form of expression of a work and not the underlying ideas.[151] The subtlety and complexity of the idea-expression dichotomy and the fact that it is potentially a misleading concept when one examines the actual application of it in copyright law was noted above. The purpose of the type of clause suggested would be to exhort the courts in applying the concept to adhere more to the expression only side of the dichotomy than they might had the principle not been codified.

It should be noted that there is always a risk in codifying such fundamental general principles. Once codified, the focus of the court's analysis must then turn to the particular statutory language rather than the general concept as developed by case law, the legal literature and the court's own sense of appropriate standards in the particular case.

There is a risk that the statutory language chosen may yield some unexpected undesirable result and may limit the flexibility of the courts in adapting the general concept to changing circumstances. In addition, in Canada unlike in the U.S., for example, it is not possible to develop a record of legislative consideration of the particular provision in which the legislature can elaborate on the purposes for including such a provision.[152] On the other hand must be balanced the risk of the courts using the greater flexibility of an uncodified principle to achieve undesired results, something that judging from the recent experience of other countries may outweigh the risks of codification. Consequently, it is recommended that the introduction of such a codified principle be seriously considered for the Canadian copyright statute.[153]

In the light of the difficulties which have been encountered in the U.K. in particular, consideration could also be given to adopting some further provision directed at the specific problem of copyright in drawings or other artistic works protecting the functional aspects of designs. The U.K. Consultative Document of 1981 suggests a general exclusion from its proposed copyright protection for the general appearance of an article, "...so far as it is not dictated by the function that the article may have to perform."[154] Such a provision could be adapted to the approach recommended in this paper (which would not extend copyright to the general appearance of an article) by providing a section which stated that so far as any features of appearance of any utilitarian article or any part of any utilitarian article constituted, or were protrayed in, any work protected by copyright (such as a drawing or plan, for example), that the copyright for such work could extend only so far as features of appearance of the article were not dictated by [155] the function that the article had to perform.

A provision like that suggested above does appear to do nothing more than reiterate the effect of the proper application of several general principles of copyright, in particular: the artistic character requirement--there can be no artistic character to the extent that a work is dictated by function; the originality requirement--to the extent that a work is dictated by function it cannot be original; and most importantly, the idea-expression dichotomy--to the extent that features of appearance are dictated by function they constituted unprotected ideas and not protected form of expression.[156] One risk of such a specific provision is that it may be interpreted in ways that limit the more general concept of the idea/expression dichotomy. If such a provision is adopted, and on balance it is recommended that such a provision be seriously considered, it ought not to be adopted without adopting an express, general idea/expression provision as suggested above. The adoption of the specific provision without such an express general provision might be more likely to lead to interpretations of the statute which would limit unduly the scope of the general, uncodified idea/expression principle.[157] In addition, it would be wise to introduce the specific section excluding protection for features of utilitarian articles so far as they were dictated by function with express words indicating that the specific section was not to limit the generality of the general provision providing for the idea/expression dichotomy.

Finally, it remains to consider whether a general idea/expression provision and the specific dictated-by-function provision proposed above would be sufficient to deal with the potential improper extension of copyright protection for plans and drawings to the operational features of utilitarian articles portrayed in such plans and drawings. The express general idea/expression provision proposed, of course, just codifies the existing law which in itself does not seem to have been adequate to avoid the extension of copyright to the effective protection of operational aspects of designs for utilitarian articles in some cases noted above in the U.K. and New Zealand, for example.[158] The proposed specific provision to exclude copyright protection from extending to features dictated by function may encounter two interpretational problems which would limit its effectiveness in achieving the intended result. First, no matter what specific language is chosen for such a provision[159] there is always a risk that it will receive a narrower interpretation than would be desirable for it to be fully effective in excluding copyright from applying to functional aspects of utilitarian articles. The experience with the exclusions of function which appear in the industrial design statutes of several countries indicates the inherent difficulty in interpreting and applying such provision.[160] The second potential limiting effect of this proposed provision is that it might tend to cause the courts to focus exclusively on the specific provision in cases when an issue of the extension of copyright to functional elements arose, at the expense of overlooking other copyright doctrines which can be applied to exclude protection for functional elements, in particular originality and artistic character.[161]

Consequently, consideration ought to be given to enacting a further provision, again derived from recommendations made in the U.K. Consultative Document,[162] It could be provided that when features of appearance of any utilitarian article or any part of any utilitarian article were portrayed in, or constituted, any work protected by copyright (such as a drawing or plan, for example) it shall not be infringement of copyright in such work to reproduce the article and such features of appearance in any form whatever to the extent that the article itself and such features of appearance would not be a work protected by copyright. This general provision would direct the interpreters of the statute to consider all of the grounds upon which the features of appearance of the article itself as portrayed might not qualify for copyright protection including the requirement of artistic character, originality, the idea/expression dichotomy and the specific exclusion of features dictated by function proposed above.

Such a provision may be desirable in the light of experience which indicates that interpreters of copyright statutes may occasionally lose sight of the fact that while a particular drawing or plan of a utilitarian article may itself have a sufficient minimum of the qualities necessary to qualify for copyright protection, the utilitarian article portrayed does not. In such cases the reproduction of the utilitarian article portrayed in any form in which the protected elements of the original drawing or plan itself are not reproduced does not constitute infringement of the copyright in the drawing or plan.

It should be recognized, however, that such a provision, like the two discussed above, appears only to reiterate results that would be arrived at under the existing law and general copyright principles, properly applied.[163]

7. The Proposal In the Light of the U.K. Experience Since 1956

Since the scheme proposed to regulate the relationship of copyright and industrial design draws greatly on the recommendations of the Gregory Committee in 1952 and the U.K. copyright legislation of 1956, an obvious question is how the legislative changes and various official proposals for statutory change that have taken place in Britain since 1956 relate to those proposals.

First, it should be noted that the proposals avoid a major defect of the 1956 (and present) U.K. legislation. This is the interpretation of s.10(2) of the U.K. Copyright Act 1956 which permits unregistrable industrial designs to retain full copyright protection although marketed in the U.K.[164]

The proposals made in this paper would exclude such designs from copyright protection and so avoid a major criticism of the present U.K. law.

Reference was made above to the review of the U.K. law by the Johnston Committee in 1962. For the reasons given above,[165] the recommendation of the minority of that Committee that a modified form of what is the present Canadian law criterion of the original intent of the designer or artist be used to regulate the application of copyright and industrial design protection in this area was rejected. Some specific criticism of statutory drafting and procedure made by the Johnston Committee have been recommended above for consideration in drafting a Canadian statute.[166]

The U.K. Design Copyright Act 1968 significantly amended s.10 of the Copyright Act 1956. The effect of the legislation is to end the loss of copyright upon the securing of a design registration or the commercial use of a design without a design registration having been secured. For all industrial designs, whether registered or not, the loss of copyright is not to occur until fifteen years after the first commercial distribution of the design in the U.K. or elsewhere.[167]

The purposes of the 1968 legislation appear to have been to deal with two perceived problems with the 1956 statutory regime.[168] The first was the perception that no protection was available for industrial designs except through registration under the Registered Designs Act 1949. It was argued that the delays inherent in securing registration, particularly reflecting the necessary search and examination for novelty, meant that copyists were able to flood the market for a design (particularly for design of a seasonal or otherwise short market life) before the design proprietor was able to secure protection. In addition the fees and other costs of preparing and prosecuting design registration applications were seen as burdensome to some businesses.

The response to this difficulty in this paper is contained in recommendations made later.[169] The system proposed there for industrial design protection, while it does involve a registration system, does not feature a requirement of novelty in order to secure registration. Consequently registration should be expedited as there will be no search and examination for novelty. To the extent that there are costs involved in securing design registration, it is essential that a system such as that proposed be adopted to balance properly the interests of industrial design proprietors, other competing businesses and the general pulbic, and that industrial design proprietors as the chief beneficiaries of the system ought to bear the reasonable costs of it.

The second difficulty seen by the proponents of the 1968 U.K. legislation was that some designs were not novel under the requirements of the Registered Designs Act 1949, e.g., reproductions of animal or human figures, and so were denied protection although they were original in the copyright statute sense. The effect of the 1968 amendments is to provide short term (15 years from marketing) copyright protection for such designs.

Again, the response to this problemm is contained in recommendations made below.[170] Since the proposed system for industrial design protection involves a requirement of originality and not novelty, such designs could qualify for protection under the proposals.

In 1977 the Whitford Committee Report reviewing the British copyright law was published. It is clear from the report that the entire committee conceived of industrial designs as being distinguished from works protected under copyright, at least to the extent that designs were to receive a shorter term of protection than given to works protected by copyright. The Committee report does not deal with the specific provisions by which the Committee would distinguish industrial designs (receiving shorter term protection) from copyright-protected works. However, the report does note that the Committee contemplated keeping the existing U.K. law to the extent that it was consistent with their specific recommendations,[171] which may mean that they would have retained the parts of s.10 of the Copyright Act 1956 as amended by theDesign Copyright Act 1968 that were consistent with their other recommendations.

Two of nine members of the committee favoured retaining much of the present U.K. industrial design system although changing the nature of, and requirements for, obtaining protection.[172] Presumably, this group would have had to retain something like the present U.K. law in s.10, Copyright Act 1956 as amended to distinguish design and copyright protection.[173]

Four of the nine members of the committee would have provided automatic[174] copyright protection for a term of 25 years from the marketing of articles bearing the designs to all industrial designs, but would have made the recovery of damages for infringement subject to special notice and marking provisions.[175] The recommendation of this group would not escape the necessity of drafting a relatively complex provision to distinguish between works protected by copyright and by industrial design. It would be necessary to define "industrial design" so as to be able to identify those works subject to the notice and shorter term provisions.

This would introduce all the difficulties of deciding whether the concept of industrial design (for shorter term requirements) ought to be limited to specific products marketed or whether some concept of "associated designs" ought to apply. When the design originated in an artistic work later applied to a design there would be all the difficulties inherent in deciding and defining where the artistic work (which would not be subject to notice requirements or shorter term) left off and the industrial design began. Also, to avoid having copyright apply so as to defeat the notice and shorter term provision for industrial designs, provisions would have to be drafted to prevent the copyright for drawings for industrial designs applying without notice and for the ordinary copyright term when the work was reproduced as a design.[176]

Three of nine members of the committee would have given automatic copyright protection to industrial designs when the appearance of the articles influenced the purchase decision.[177] Designs for the shape of articles where aesthetic elements did not influence purchasers would have been given a 15 to 25 year term contingent upon a deposit of the design being made with a government office. The proposal of this group would have required a copyright/industrial design distinguishing section like that needed for the proposal of the group immediately above compounded by the need to ensure that ordinary copyright did not apply so as to defeat the effect of the proposed deposit requirement.

Whatever other advantages the various proposals of the Whitford Committee might have, they do not provide significant relief for those who have complained that the existing U.K. legislated distinction between copyright and industrial design is particularly complex and difficult to apply.[178]

In 1981 the British government published a Consultative Document dealing with proposed reforms to copyright and designs law. The document proposes that automatic copyright protection be extended to the "...general appearance of an article...so far as it is not dictated by the function that the article may have to perform."[179] When such general appearances of articles are applied industrially they would receive protection for 25 years from first marketing. Provisions would also be introduced to prevent the copyright in a drawing for an industrial design from being applied so as to defeat either the proposed exclusion of functional features from protection or the limitation of term to 25 years from first marketing. The document rejects any requirement of deposit or registration and also rejects any notice or marking requirement as a condition of recovering damages in infringement actions. The document left open for discussion the question of whether the existing Registered Designs Act 1949 should be repealed once the above scheme was introduced.

The proposals of the consultative document to exclude protection for the functional elements of the appearance of articles have been discussed above.[180] Here the concern is only with the implications of the recommendations for defining the relationship between copyright and industrial design. The proposals, like the Design Copyright Act 1968 and the majority proposals of the Whitford Committee, provide for an industrial design system included within the general copyright statute. With these proposals, as with the Whitford Committee and Design Copyright Act 1968 approaches, industrial design is distinguished from works protected by regular copyright by the shortened term of protection. As noted in the discussions of Whitford and the 1968 legislation,[181] this approach will still necessitate a relatively complex provision to distinguish between works protected by regular copyright and those works which receive the shorter term of protection. There is no indication that the government proposes to depart from the approach of the existing s.10 of the Copyright Act 1956 as amended by the Design Copyright Act 1968 so far as applicable to, and consistent with, the specific proposals made.[182]

The "improvements" that might be seen in the consultative document proposals over the proposals made in this paper are basically the same as those seen in the enactment of the Design Copyright Act 1968 and they ought to be rejected for the same reasons.[183]

8. The Issue of Artistic Works Applied to Utilitarian Articles Revisited

(a) Introduction

Having outlined the proposals to deal with the relationship between copyright and industrial design, it is proposed to return to an issue which may concern a number of critics of those proposals. Earlier note was made of the view that applied art is truly art and therefore ought to receive the same protection under copyright as examples of the fine arts.[184] That view may be particularly strongly held in relation to works which commence their existence clearly as works of art and are only later applied to functional articles, and even when so applied seem to remain clearly identifiable as works of art applied to some useful article. This view has been put forward forcefully by such proponents as the Walt Disney organization in British,[185] Canadian[186] and Australian[187] industrial desing and copyright law review processes.[188]

It may appear that industrial designs tend to fall, very generally, into three categories. On the one hand is the type mentioned immediately above, where the design began as an artistic work which was only later applied as a design and where the artistic work seems to remain clearly identifiable as such even used in the design. The second category of industrial designs are those which first came into existence as industrial designs (i.e., features of appearance to be applied to functional articles), but which seem clearly severable from the articles to which they are applied and capable of an existence apart from the utilitarian articles to which they are applied. The final category are those industrial designs which were first created as designs and which seem most closely integrated with the article itself, as for example is the case with many contemporary designs for the shape of functional articles.[189] .

Those who favour extending copyright protection to industrial designs might argue that while all forms of designs ought to be protected by copyright, the strength of the entitlement to copyright protection increases as we move from the third category to the first category of designs set out above.[190] In addition, it may be argued that the reasons given for not applying copyright protection and for substituting industrial design protection are of decreasing applicability as we move from the third category to the first.[191] Finally, such proponents of applying copyright to industrial designs may argue that if it is necessary to exclude copyright from applying to industrial designs and to substitute industrial design protection, then it should be possible to draw distinctions such that it may be conceded that copyright will not apply to the third category of designs above, but perhaps could apply to the second category and surely ought to apply to the first.

Below several methods are considered of classifying industrial designs used in the law, or law revision proposals, of other countries for the purpose of distinguishing those to which copyright will apply from those to which it will not apply. As the reader will note, none of the systems are recommended for adoption in Canadian law.

(b) United States: Artistic Elements Existing Independently of Utilitarian Aspects

Above reference was made[192] to the U.S. Copyright Act of 1976 which provides that,

> "the design of a useful article, ...shall be considered [a protected work] only if, and to the extent that, such design incorporates pictorial, graphic, or sculptural

> features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."[193]

This provision is intended to exclude from copyright not only designs in which there is a "physical" separation of design features and the utilitarian aspects of the article but also cases in which there is a "conceptual" separation.[194]

The approach taken in the U.S. law does seem capable of providing copyright protection for works of art that are later applied as industrial designs[195] and those designs that are clearly severable from the functional articles to which they are applied. The approach reflects a decision that designs where the aesthetic and functional aspects are not severable are problematic, or the most problematic, when granted copyright protection.[196] However, a real difficulty with this approach is in applying the requirement that the design features be identifiable separately from, and be capable of existing independently of, the utilitarian elements of the article to which they are applied. The American experience seems to indicate that the requirement is difficult to apply and can lead to confusing and inconsistent results in particular cases.[197]

We have earlier indicated that we believe that copyright protection should not be extended to industrial designs of any type including those derived from pre-existing artistic works and those which may be regarded as severable from the functional articles to which they are applied.[198] There is nothing in the review of the American experience and law that indicates that a different view ought to be taken. The particular approach of the U.S. copyright legislation reviewed here is, as a possible model for Canadian law, a complex and difficult mode of achieving a goal that should not be sought, i.e., the extension of full copyright protection to some industrial designs.[199]

(c) Australia, the Franki Committee Report: Two Dimensional vs. Three Dimensional Designs

In 1973 an Australian government committee published a recommendation that designs consisting solely of features of two-dimensional pattern or ornament applicable to the surface of an article receive full copyright protection whereas designs in three dimensions applicable to an article in the form of its shape or configuration be denied copyright protection and receive only industrial design protection.[200] The Committee argued that a two-dimensional design retained its "essential character" as a work of art notwithstanding having been applied to a functional article. Further the Committee seemed to suggest that it was "well known" that one copies such works at his peril because of the possibility of copyright infringement.[201]

The Committee refused to recommend extending copyright to three-dimensional designs because they could be functional[202] which meant that protection should not be available without registration and the term of protection ought not to be as long as the copyright term.[203]

The Franki Committee proposal does not represent a desirable model for Canadian law. There is disagreement with the fundamental assumption of the Committee that a two-dimensional work applied as an industrial design has the essential character of an artistic work under copyright law. The "essential character" of such material in the analysis in this paper is determined by the policy objectives and the assessment of the impact of the various policy alternatives on such material and its production. By that analysis two-dimensional designs are industrial designs and the reasons why we believe copyright protection ought not to extend to industrial designs have aleady been given above.[204] While the proposed distinction of the Franki Committee may be without some of the difficulties of application encountered by the test used in the U.S. law, it is noted that this is achieved at the cost of certain arbitrariness[205] and that the proposed approach is not without its own difficulties of application and interpretation.[206]

(d) Federal Republic of Germany and Uniform Benelux Law: Special Artistic Character

The Uniform Benelux Designs Law and the law of the Federal Republic of Germany suggest another approach to the relationship between industrial design and copyright which results in extending copyright to at least some industrial designs.[207] The approach is generally to exclude industrial designs from copyright protection, but to make an exception to this exclusion by allowing designs that meet a certain standard of special artistic quality to receive copyright protection. The actual results in terms of the proportion of industrial designs which receive copyright protection, of course, will vary with the nature of the standard of special artistic quality which is set.[208]

This approach has been followed in German law for some time, whereas it is a more recent innovation in the Benelux law. In Germany courts make the decision as to whether a particular work reaches the high artistic standard required with the assistance of expert evidence by art specialists. It has been suggested that these decisions have proved difficult to make[209] and that the results in the various cases appear difficult to reconcile.[210]

The Benelux law has a further interesting provision which states that the design protection and the copyright protection for designs of marked artistic character both expire in fifteen years after the date of the design registration.[211] However, the proprietor of copyright can maintain it after the fifteen year period (although the design registration will expire nevertheless) by filing a prescribed public declaration and paying a fee. Such declarations are intended to provide a means for interested members of the public [illegible] determine whether copyright still subsists in particular design.[212]

The adoption of any system is not recommended which provides copyright protection for some industrial designs on the basis of some criterion of special artistic quality. Such a test would prove very difficult to administer as the experience of other countries seems to indicate. Even if such a criterion could be applied effectively, the purpose in introducing such an approach is not accepted. All industrial designs ought not to receive copyright protection, and the consideration of the German and Benelux laws does lead to any change in that conclusion.

9. Summary of Recommendations

(a) Definition of Industrial Design

1. "Industrial design" should be defined as features of appearance of utilitarian articles, the latter being defined as articles having any function or utility other than merely to portray the appearance of the article or to be contemplated, and other than merely to convey information.

2. There should be a power to make regulations to deem designs applied to types of articles to be specified in the regulations to be, or not to be, industrial designs for the purposes of the Industrial Design Act, and the Copyright Act.

(b) Relation Between Copyright and Industrial Design

i. Loss of Copyright Through Registration of Industrial Design

(a) Where copyright subsists in any work under the Copyright Act, and a corresponding industrial design is registered under the Industrial Design Act, it shall not be infringement of copyright in such work to do anything within the scope of protection of the industrial design under the Industrial Design Act while such registration subsists, nor shall it be infringement of any copyright to publish, to reproduce in any material form including cinematograph, photograph or any mechanical contrivance, or to broadcast or to communicate by radio communication any representation of such corresponding industrial design.

(b) Where any industrial design registration referred to in recommendation (a), above, has terminated, it shall not be infringement of any copyright to do anything that would have been within the scope of protection for such industrial design as extended to all associated designs and articles, nor shall it be infringement of any copyright to publish, to reproduce in any material from including cinematograph, photograph or any mechanical contrivance, or to broadcast or to communicate by radio communication any representation of such industrial design as extended to all associated designs and articles.

(c) Where copyright subsists in a work and a corresponding industrial design is registered by a person who is not the proprietor of such design without the knowledge or consent of the proprietor, the proprietor may move to expunge such registration at any time during the continuance of such registration and such expungement shall revive the copyright (caused to be lost upon the registration under recommendation a)) in such work retroactively. However in any copyright infringement action in respect of such work, where the defendant relied upon a licence or assignment from the registered proprietor of the industrial design and upon the registration of such industrial design in good faith and without knowledge of the proprietor's interest, the loss of copyright provided for in recommendation a) shall apply in respect of such infringement action. [See U.K. Copyright Act 1956, s.10(1) and First Schedule.]

ii. Loss of Copyright Through Publication, Use or Marketing of an Industrial Design

(a) (i) For the purposes of this provision "industrial design" means any features of appearance of any utilitarian article or any part thereof whether or not such features are ordinarily visible when such article is used or purchased, but subject to any regulations passed under the power to make regulations referred to in paragraph A.2., above.

(ii) For the purposes of this provision "utilitarian article" has the same meaning as provided for in pararaph A.1, above.

(iii) Where copyright subsists in any work under the Copyright Act and a corresponding industrial design is published, or articles bearing the industrial design are used or marketed, with the consent of the copyright owner, anywhere in the world and no registration for such industrial design has been obtained, it shall not be infringement of copyright to publish, to reproduce in any material form including cinematograph, photograph or mechanical contrivance, or to broadcast or to communicate by radio communication such corresponding industrial design or any associated industrial designs or any representations thereof.

(iv) For the purposes of provision (iii), above, "publication" means any disclosure of the industrial design to the public or any member thereof otherwise than in confidence, provided that such disclosure is itself not in breach of good faith or confidence.

(v) For the purposes of provision (iii), above, "used" refers to any use of an article bearing the industrial design which is not experimental and is use to which such articles would ordinarily be put in commerce or otherwise.

(b) In any action for infringement of copyright in any work, proof that the alleged infringing activity constituted reproduction or publication of a corresponding industrial design or any associated industrial design, or any representation thereof, which occurred after such industrial design had already been used or marketed, shall constitute prima facie evidence that such earlier publication, use or marketing occurred with the consent of the owner of the copyright.

(c) For the purposes of provision B.2.a) (iii), above, no account shall be taken of any industrial design published, or any articles bearing an industrial design used or marketed, where such industrial design was refused registration on the basis that the industrial design was excluded from registration by the effect of the regulations promulgated pursuant to the power referred to in provision A.2., above. For the purposes of any proceedings under the Copyright Act, a refusal of registration on the basis of such regulations shall be presumed conclusive that such industrial design is deemed not to be an industrial design for the purposes of provision B.2.a) (iii), above. (See U.K. Copyright Act 1956, s.10(4)).

(c) Further Amendments to the Copyright Act

1. Definition of "Artistic Work"

A requirement of artistic character ought to remain a condition of there being an artistic work which qualifies for protection under the Copyright Act.

2. Scope of Protection

(a) No provision like the U.K. Copyright Act 1956, s.9(8) ought to be adopted in the Copyright Act.

(b) Consideration should be given to enacting a provision like s.102(b) of the U.S. Copyright Act of 1976 in the Copyright Act.

(c) If the provision in b) is adopted, consideration should be given to adopting a provision which states that not so as to limit the generality of the provision in b), insofar as any features of appearance of any utilitarian article or of any part thereof constituted, or were portrayed in, any work protected by copyright, copyright shall extend only so far as such features of appearance were not dictated by the function that the article had to perform.

(d) If the provisions in b) and c) are adopted, consideration should be given to adopting a provision which states that where any features of appearance of any utilitarian article or any part thereof constituted, or were portrayed in any work protected by copyright, it shall not be infringement of copyright in any work to reproduce the article and such features of appearance to the extent that the article itself including such features of appearance would not be a work protected by copyright.

10. Footnotes to Chapter 2

1. When we refer to "copyright protection" we are referring to the ordinary copyright system applicable to artistic and other works now contained in the Copyright Act. We are not referring here to a special form of industrial design protection that might incorporate some principles of the copyright form of protection, *e.g.*, protection against copying only, or a requirement of originality instead of the present requirement of novelty. Industrial design systems are sometimes classified as "patent-type" or "copyright-type." See Wallace, "Protection for Designs in the United Kingdom," (1974) 5 IIC 421. Therefore, in this section of the paper are considered exclusively the question of whether, and how far, the ordinary copyright system ought to apply to industrial designs. Later sections of the paper will consider the question of the extent to which the industrial design system ought to be based on a "copyright-type" approach.

In addition it is assumed that the main features of the Canadian copyright system will remain unchanged, particularly as the features which are of concern here are largely mandated by the Berne Convention.

2. Another possibly relevant type of work is the "literary work" which is defined to include "plans." Copyright Act, RSC, 1970, c.C-30. s.2.

3. Copyright Act, RSC, 1970, c.C.-30, s.2.

4. Works of "artistic craftsmanship" may be similarly applied to industrial products as designs. However, it seems doubtful that all mock-ups or prototypes for manufactured products would qualify as works of artistic craftsmanship under the copyright statute and so attract copyright protection for the designs on that basis. See George Hensher Limited v. Restawhile Upholstery (Lancs) Limited, [1975] RPC 31 (HL).

5. Copyright Act, supra note 3, s.3(1).

6. King Features Syndicate v. Kleeman [1941] 2 ALL ER 403 (HL). See generally, Gould, R.D. "Copyright in Three Dimensions-- New Dimension," August 1981, PTIC Bulletin, Series 8, Vol. 10, p. 534.

7. The infringing copying of the drawing may be indirect, i.e., by copying a copy of the original drawing. Fox, The Canadian Law of Copyright and Industrial Designs, 2d Ed.

(1967) p. 329. Merchant Adventurers Limited v. M. Grew & Company [1973] RPC 1 at 9.

8. L.B. Plastics Limited v. Swish Products Limited, (1979) RPC 551 (HL)

The extent of copyright protection as artistic works of industrial designs might be limited by the meaning of "artistic" in the statute. It is unlikely that the work imposes any requirement of artistic merit in the sense of being good art as opposed to bad art, despite suggestions found in cases like Burke & Margot Burke Ltd. v. Spicer's Dress Designs, (1936) Ch. 400. However, there is a requirement that the work be of an artistic type or character. That may mean only that the work must fall within one of the enumerated categories of artistic works such as paintings, drawings, sculptures, etc., or some similar non-enumerated category, regardless of the lack of intent by the designer to direct the design to, or the lack of actual appeal in the design to, the faculty of aesthetic judgment. If that is so any design for a functional article which originates, for example, as a drawing, would receive copyright protection regardless of its lack of appeal to the aesthetic senses. The legal result would then be that which is described in the text, i.e., that even designs that were precluded from protection under the Industrial Design Act, e.g., because they were dictated solely by the function of the articles to which they were applied had to perform, would receive copyright protection.

However, the other possible view of the meaning of "artistic" in the context of "artistic work" is that it requires some appeal or intent to appeal to the aesthetic senses. In interpreting "artistic" in rejecting a claim that a particular thing was a "work of artistic craftsmanship" one Canadian judge has said that the claimed work was,

> "...never intended primarily as an article regarded as artistic or beautiful in itself even if the artistic requirements here are not too great. Indeed, even if artistic merit is not a matter of great importance in copyright law the word artistic must still be given its ordinary meaning..."

Cuisenaire v. South West Imports Ltd., (1967), 54 CPR 1 at p. 21 per Noel, J. The Supreme Court of Canada affirmed the result in this case without commenting on Noel, J's view of the meaning of "artistic work," (1968) 57 CPR 76.

If the latter view can be applied to the meaning of "artistic work" generally, it would not exclude from copyright protection industrial designs that are protected under the Industrial Design Act since such designs must be directed toward enhancing the visual appeal of the articles to which they are applied. However, this view of "artistic work" would prevent the application of copyright to designs for articles which had no visual appeal and which were purely functional. It is this latter type of design with which there has been particular controversy in Britain concerning the application of copyright.

In assessing the utility of British cases such as L.B. Plastics, which indicate that U.K. copyright will protect as artistic works purely functional designs, in interpreting Canadian copyright law it should be recalled that the U.K. copyright statute's definition of "artistic work" is different from the Canadian statute's definition. The U.K. law defines drawings and other works to be artistic works "irrespective of artistic quality," Copyright Act 1956, 4 & 5 Eliz 2, c.74, s.3 (1) (2). This phrase does not appear in the current Canadian statute, although Copyright in Canada, Proposals for a Revision of the Law, (1977), p. 48 recommends the introduction of the phrase into Canadian law.

There have been no very helpful reported Canadian decisions on the issue of infringing copyright in a drawing for a design by the manufacture of the product bearing the design illustrated in the drawing. Spre Compagnie Ltee v. Artia Metal Creation Ltee, (1977) 35 CPR (2d) 143 (FC) deals with infringement of copyright in "geometric drawings" for lampshade frames. The action was dismissed on the ground that the wrong defendant had been named. It would appear that the complained of infringement was in reproducing the drawings in a catalogue and not through the reproduction of the frames themselves. The court does state that the copyright would not prevent others from making lampshade frames of the same shape and material (p. 144). However, there is no analysis given of the basis for this statement, presumably because the statement itself was unnecessary for the resolution of the case.

In Schauenburg Industries Ltd. v. Borowksi (1979) 50 CPR (2d) 69 (Ont. H.C.) the court found that the plaintiff had copyright in drawings of a machine used in the manufacture of mining ventilation equipment. The court found that the defendant infringed by reproducing the drawings as drawings preparatory to manufacturing the machine. The court found it unnecessary, "...to decide whether 'work' used in s.3(1) [of the Copyright Act], while it includes drawings, would encompass machines and products made from the drawings." (p.78) This statement, alone, may be a little ambiguous. However, on the facts it is unlikely that it is a reference to the question of whether a machine can be an "artistic work" (perhaps a "sculpture") in itself attracting copyright, which can be infringed by being reproduced. Rather it seems to be a reference to whether the drawings (which are clearly artistic works) can be infringed by reproduction in the form of a machine within the meaning of s.17(1) and s.3(1) which define infringement as the reproduction, "...the *work*... in any material form whatever" [emphasis added]. If the statement is suggesting that since the original work was a drawing, it can only be infringed by being reproduced as a drawing, that would appear to be ignoring the phrase "in any material form whatever." It would appear that the very purpose of that phrase which first appeared in the U.K. 1911 copyright statute [as s.1(2)] was to avoid a view like that of what constituted infringement under the earlier legislation. That earlier legislation, which was composed of separate statutes for the various types of works protected, was viewed as limiting the concept of infringement to reproduction of the protected work in the same or similar mode, *e.g.*, a protected painting only reproduced as a similar two-dimensional work. Cornish, *Cumulative Protection for Industrial Designs*, (1973) 8 UBC Law Rev. 219 at 233-36.

Another issue, however, may be suggested by the Court's observation. *The Copyright Act*, s.3(1) provides that copyright means (and s.17 defines infringement as a contravention of) the sole right to "reproduce the work," *inter alia*. The Court's observation may be a reference to the question of whether the defendant's machine could be regarded as a reproduction of the plaintiff's "work," given that word is a term of art in the statute. It might be argued that since s.2(1) refers to a reproduction of the "work," to constitute infringement the defendant's reproduction must be in the form of a "work" under the *Copyright Act*. Given the broad scope given to the meaning of copyright and infringement (s. 3 and 17), the reproduction need not be the same type of work as the plaintiff's protected work (in this case a "drawing" which is a form of "artistic work," see *Copyright Act*, 2) It may be argued, however, that the defendant's reproduction must be some form of "work" recognized by the *Copyright Act*, and that the defendant's machine in this case did not constitute such a work. The only type of work that a machine might possibly be under the *Copyright Act*, appears to be an "artistic work," perhaps a "sculpture". Note, that while the definition of "includes" a list of specific types of artistic works, it has been held that this language actually limits the concept of artistic works to the forms given in the list which does not include anything like "machine." See *Cuisenaire v. South West Imports* (1967), 54 CPR 1 (ex. Ct.) at 10. Further, it has been held that the expanded definition of "every original...artistic work" in s.2 of the Act which refers to "every original production in the ...scientific or artistic domain whatever may be the mode or form of its expression..." does not expand the concept of "work" under the Act beyond the established categories of literary, dramatic, musical and artistic works. See *Cuisenaire v. South West Imports*, *supra* at 18.

A related argument to that above might be that in order for the defendant's machines to be an infringing reproduction of the plaintiff's drawings, they must be a "work" which meets the test set out by Pape, J. in *Cuisenaire v. South West Imports*, *supra* at 25, that the defendant's work must be "in the nature of" the plaintiff's protected work. In *Cuisenaire v. Reed* it was found that colored wooden rods of different sizes (used to teach primary school children mathematics) were not in the nature of tables and compilations in a book from which the rods had been derived. A machine derived from a drawing of the machine may be seen more in the nature of the drawing than the rods were seen to be in the nature of the tables in the book in *Cuisenaire*.

Finally, a further related issue may be suggested by the statement quoted of the Court in *Schaureburg*, *supra*. This is, given that the work protected in the case is supposed to be an "artistic work" under the Act, and given that "artistic" in that context may require a work of an artistic type or character as suggested in *Cuisenaire v. South West Imports*, *supra*, *per* Noel J. at 21, the defendant's reproduction to be infringing must also be a "work" of an artistic type or character. In *Schauenburg* the original drawings may not even have had an artistic character of this type (the court does not deal with the issue), but even more likely the defendant's machine may not have had such an artistic character.

Arguments of the type made above which attempt to limit the scope of the concept of infringement by interpretations of "reproduce the work" as it appears in the *Copyright Act*, s.3(1). That section continues to define copyright, as noted *supra*, as the sole right to reproduce the work "or any substantial part thereof *in any material form whatever*" [emphasis added].

In L.B. Plastics, *supra*, the House of Lords noted that the alleged infringement was, "...the reproduction of the drawing, ...by the manufacture of three components [the drawers]" p. 147 per Lord Wilberforce). It found there was infringement under the U.K. copyright statute which defines infringement as "reproducing the work in any material form." [s.3(5)].

For further analysis, and recommendations concerning "artistic work" see below text at notes 104 to 105.

9. Supra, Ch. 1, text at note 11.

10. Below, Ch. 3, text at note 9. See Kilvington Bros, Ltd. v. Goldberg (1957), 28 CPR 13 (Ont.), at 17-18.

11. King Features Syndicate Inc. v. O. and M. Kleeman, Ltd., [1941] 2 All ER 403 (HL).

12. This assumes that the design is otherwise registrable, in particular that the design is novel and that it has not been published more than one year before registration is obtained.

13. These points were noted by the U.K., Departmental Committee on Patents and Designs Final Report, 1947, Cmd. 7206, p. 62, ("Swan Committee") and cited by Board of Trade, Report of the Copyright Committee (1952, U.K. Cmd. 8662), p. 86 ("Gregory Committee Report").

14. Supra, Ch. 1, text at note 4.

15. The U.K. Registered Designs Act 1949, 12, 13 and 14 Geo. 6, c.88, s.1(3), refers to "...features of shape, [etc.]... applied to an article..." See above, Ch. 1, text at note 5.

16. The U.K. design statute, supra note 14, s.1(3) and the Canadian Copyright Act, s.46(1) both refer to "any industrial process."

17. These difficulties have been noted by others: Jackson, R.V., "a New Approach to Protection For the Designs of New Products." (1956), 34 CBR 369; Hough, B., "Definition of Design and Related Provisions," unpublished, Consumer and Corporate Affairs, (1971).

18. Fysh, Russell-Clarke on Copyright in Industrial Designs, 5th Ed., (1974), p. 13.

19. The view that industrial design consists of features of appearance applied to, or of, functional or utilitarian articles appears to be widespread. See the development of British (and Canadian) law referred to in the text at note 18. An approach similar to that recommended in the text is

suggested by Barbara Hough, see paper cited in note 16. See also proposals for a U.S. industrial design statute, 96th Congress, 1st Session, H.R. 4350, (1979), reproduced in BNA, Patent, Trademarks and Copyright Journal, No. 435, June 28, 1979, p. A-14. The Uniform Benelux Designs Law defines industrial design as the "appearance of a product having a utility function," Art. 1. Reproduced in (1974) Industrial Property 177 at 179.

20. Under the British law in effect in 1947 (much like the present Canadian law), the Swan Committee Report, supra, note 12, p. 61 noted this difficulty. It made the recommendation which led to the enactment of the rule-making power referred to in the text following.

21. .Registered Designs Act 1949, 12, 13 & 14 Gro. 6, C. 88, s.1(4). Rule 26 of The Design Rules 1949 excludes from registration, inter alia, designs to be applied to the following articles:

> "(3) printed matter primarily of a literary or artistic character, including book jackets, calendars, certificates, coupons, dressmaking patterns, greeting cards, leaflets, maps, plans, postcards, stamps, trade advertisements, trade forms, and cards, transfers, and the like."

It should be noted that the definition of industrial design proposed, with its express exclusion of articles intended to convey information would exclude at least a number of the items listed above. The definition proposed should make rules of this type less necessary than they have proved to be in the British law.

22. Sculpture would appear to have a fairly broad meaning under copyright legislation in Canada and in Britain. The Canadian Copyright Act, s.2 defines "sculpture" to include "casts and models". The material of which the claimed sculpture is made does not affect its claim to be a sculpture. "A model of a wolf cub's head for attachment to a Boy Scout's totem pole has been held to be a work of sculpture within the meaning of the 1911 Act, [which is the same as the present Canadian statute on this point], and even such small models as toy soldiers have been held to fall within the definition." Fysh, Supra, note 18, p. 147.

23. Swan Committee Report, Supra, note 13, p. 62, citing Pytram Ltd. v. Models (Leicester) Ltd., [1930] 1 Ch. 639. We noted earlier that the U.K. courts developed a view of "article" under the designs statute which required the

article to have some function other than merely carrying the design. Another way of framing that requirement was to say that the article had to be, "so subordinate to the ornament that it may be said to practically disappear." Fysh, supra, note 18, p. 13. An explanation of the treatment of sculptures is that, "where features of shape are concerned, the features are substantially embodied in the substance, so that the substance cannot be subordinate to the features." Fysh, supra, p. 15. Since the Canadian courts have adopted the British design statute definition of design to a considerable degree, and since the Canadian courts have accepted that the shape of an article can be an industrial design, the British position may represent the law in Canada as well. However, it is argued below that the position is untenable in principle.

24. Rule 26(1).

25. Board of Trade, Report of the Departmental Committee on Industrial Designs (1962, U.K. Cmnd 1808), p. 82 ("Johnston Committee Report").

26. This appears to have been the view of the Swan Committee Report, Supra, note 13, p. 62. As noted, that view was not reflected in the U.K. designs rule 26(1) as enacted in 1949. See text at note 24, above.

The Johnston Committee Report, supra note 25, apparently rejected the view put forward in the text as the appropriate method of dealing with sculptures. See the Committee Report, p. 83. The Committee suggested that the interpretation of "useful," as in application to a "useful article," would create difficulties. We believe that any such difficulties are surmountable and present fewer uncertainties that the Committee's approach. The approach recommended here also has the virtue of reflecting a consistent treatment of all works covered by copyright and industrial designs, which the Johnston Committee proposal appears to lack.

The actual treatment of sculptures intended by the Committee in its proposals are a little difficult to follow. After condemning the illogicality of determining the artistic character of sculptures on the basis of the number of copies intended to be made (see text at note 25), the Committee appeared to endorse the confusing concept (or non-concept) of "article" in the U.K. designs law which has led to the unusual treatment of sculptures. (See above, note 21). Committee Report, p. 82. The Committee admitted that the confusion in the meaning of "article" was such that a rule-making power was necessary to attempt clarification.

(See text, following note 18). It is therefore somewhat ironic that the Committee found a definition of industrial design that focused on utility to be too uncertain. It is also ironic that it is the fact of the design being applied to a useful article that is the essential distinction between industrial design and copyright. See Committee Report, p. 26, para. 39.

The Committee noted that the, "...right solution is to allow any artistic work, except as printed matter, to be capable of protection as a design." (p. 83). That is acceptable, if "design" is defined as application of the artistic work to a utilitarian article. What the Committee failed to make explicit was that if the confused concept of "article" in the industrial design law remained unchanged, then under its proposals for dealing with the general copyright/industrial design relationship, the reproduction of any sculpture in more than 50 copies would cause it to lose copyright protection, whether or not the sculpture was applied to a useful article.

What the Committee seemed to find anomalous about defining designs in terms of application to useful articles was that it would result in cases like that in which, "...a china shepherdess for the chimneypiece could not be protected as a design but would receive copyright protection, while a china teapot could be registered as a design." (p. 83). This is not more anomalous than the case (which the Committee would accept under its approach) of the fine art print which receives copyright although reproduced a thousand times, but is not entitled to design protection, whereas another similar illustration applied as ornamentation to a useful article would receive design protection.

The distinction between industrial design and copyright-protected works based on application to useful articles is the rational one and yields fewer difficulties of interpretation than the approach espoused by the Johnston Committee.

The Gregory Committee, supra, note 13, pp. 97-98, arrived at the same conclusion as the Johnston Committee. However, it is interesting that the reason cited by the Gregory Committee for not permitting any sculptures to retain copyright protection when reproduced more than 50 times was because such sculptures "may serve varied utilitarian purposes." It is proposed in this paper to make the actual serving of a utilitarian purpose the test of being an industrial design and therefore under the proposals made below the test of the loss of copyright.

27. Below it is recommended that if protection is sought for the design under the industrial design statute, or if the design is applied industrially without design protection being sought, copyright protection for the artistic work as a design ought to cease. See below text at notes 75 ff.

While the recommendation would result in a modest extension of copyright protection for sculptures this is not objectionable. Generally, copyright applying to non-utilitarian articles does not present the problems indentified with copyright applying to designs for utilitarian articles below text at notes 33 to 51. In addition, there is a claim for equal treatment under copyright by sculptors relative to other artists.

28. Some works of artistic craftsmanship will be utilitarian articles. Such works would qualify as being industrial designs from their creation. However, under the proposals made below on the copyright/design relationship such works, like all works protected by copyright, would not lose copyright protection until industrial design protection had been applied for and granted or until the work had been published, marketed or used as an industrial design.

29. See above text at notes 11 and 21. Another example of a type of article that has given difficulty are toys. See Johnston Committee Report, Supra, note 25, p. 83, where it is asked whether moving parts make a difference in assessing whether a toy is a useful article or not. The present Canadian position would appear to be that toys are protectable under the Industrial Design Act as "articles" to which designs may be applied. See above, note 23. The suggested definition of design may be adequate to make toys the subject matter of industrial design as they have a function other merely to portray the appearance of the design or to convey information. The inclusion of toys within a rule clarifying the subject matter of industrial design appears to be desirable, however. Note that if toys are not designs the result will be that many toys will receive copyright protection (at least through the original drawing for the toy) which is an undesirable extension of copyright protection. Another example of a problem article could be signs. The message on the sign ought not to be the subject of industrial design protection but the design of the sign itself ought to be protected by industrial design.

30. Recommendations that designs for clothes and footwear be excluded from protection are common. Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs Report on Industrial Designs (1955) ("Ilsley Commission Report) p. 14; H.R. 4350, 96th Congress, 1st Session, s.902 (e) (a bill

to introduce a U.S. design protection act); "And now two branches of industry have indeed requested such an exclusion form design protection for their own benefit: the textile industry and the shoe industry" Jehoram, H.C., "Specific Design Protection and Copyright in Benelux and Dutch Law," in Design Protection (1976) at p. 25. The Johnston Committee Report, supra note 24, p. 21-22 received evidence from the shoe, hat and clothing industries against applying copyright to their products; the Gregory Committee Report, Supra note 12, p. 91 indicated that protection for such designs under the U.K. law was difficult as such designs frequently failed to meet the test of novelty; similarly it is difficult to secure design patent protection in the U.S., see Hamilton, W., Appendix C, Ilsley Commission Report, supra, pp. 53-56.

Designs for clothing and footwear ought to be excluded from industrial design protection. The clothing and footwear industries appear to have generated a high level of design innovation without any effective protection in the form of industrial design or copyright. Consequently, it would be a mistake to introduce protection. This position reflects the general conclusion reached in the earlier economic discussion that there was no evidence that would support any significant increase (or decrease) in the level of protection. That conclusion applies particularly to the case of the clothing and footwear industries where there appears to be a high level of design innovation without effective protection.

A further problem area is that of buildings. See Johnston Committee Report, Supra, note 25, p, 40. It has been suggested that designs for permanent structures are excluded from industrial design protection whereas "readymade, portable" structures are included as articles which may have industrial designs applied to them. The Johnston Committee recommended this position be adopted in law.

Permanent structures, as functional things, would appear to fall within the kind of article, designs for which ought to be excluded from copyright protection and ought to be offered only industrial design protection on the basis of the arguments made below in this Part. However, "works of architecture" and "plastic works relative to architecture" are both mentioned in Article 2(1) of the Berne Convention (Rome level) Schedule III, Copyright Act RSC 1970 c.C.-3 as being within the scope of "literary and artistic works." While the Rome level of Berne contains no express requirement that signatory countries provide protection against the reproduction of such works, it is usually conceded that it is implicit in the Convention that signatory countries provide for some kind of reproduction right in their copyright law for such works. Canada has done so in the Copyright Act, s.4(1), s.2 "artistic work," "architectual work of art." Subjecting architectural works to industrial design protection and excluding them from copyright protection (our proposals below would exclude copyright protection for any work marketed in the form of an industrial design) could be seen as a breach of our Berne obligations in relation to term of protection and formalities (Articles 7 and 4(2)). Consequently, it is recommended that the Johnston Committee proposal be adopted that would exclude permanent buildings as articles capable of bearing industrial designs. However, small, readymade, portable buildings like metal garden sheds and storage sheds should be articles within the design legislation. Including the latter within design protection and excluding them from copyright is consistent with our Berne commitments as they constitute, at most, "works of applied art" under Article 4(4) for which signatories have freedom to determine the form and extent of protection. See below, Ch. 14.

31. This was the approach recommended for Canadian patent law in the Working Paper on Patent Law Revision (1976), pp. 180-183. Many might argue that when it is known at the time of passing the statute that it is intended to exempt certain subject matter on a long-term basis, that such exemptions ought to appear in the statute to be debated and passed by Parliament rather than appearing in the regulations, even if the latter are adopted only after a "notice and comment" procedure.

The regulation making power proposed is not to be limited as is the equivalent power in the U.K. legislation to making regulations to exclude only designs for articles, being articles which are "primarily literary or artistic in character." The Designs Law Review Committee, Report on the Law Relating to Designs, First Term of Reference (1973, Govt. of Australia), p. 61 makes a similar recommendation to the one made here that there be no such restriction on the power to make regulations to exclude subject matter.

32. The type of views expressed in the text have had an impact on the copyright law of at least two countries, France and New Zealand. In France the legal theory of the "Unity of Art" holds that it is both theoretically unsound and impractical to attempt to distinguish between works of fine art and works of applied art with a view to granting ordinary copyright protection only to the former. As a result French copyright law extends protection widely through the field of designs intended solely for utilitarian articles.
Perot-Morel, M-A, "Specific Protection of Designs and Its

Relation to Protection by Copyright in the French Law" in Jehoram, H.C., Design protection, (1976) Sitjthoff, Leyden, p. 45. In addition to copyright protection, there is also a design statute so that designs may enjoy both copyright and design protection. However, the French law does have provisions to limit the application of both copyright and design protection to designs of a functional nature. Perot-Morel, M-A. "Protection of Designs and How It Is Related to the Law on Patents in French Law," in Jehoram, op. cit., at p. 68. See also Copyright and Designs Law, Report of the committee to Consider the Law on Copyright and Designs, (1977, U.K. Cmmd. 6732), p. 34 ("Whitford Committee Report").

In New Zealand in response to the recommendations of the Report of the Copyright Committee, 1959 (the "Dalglish Committee", the New Zealand copyright law was amended to delete the provision which excluded industrial designs from copyright protection which was then much like the Canadian statute's s.46. The copyright statute was also amended to protect artistic works "irrespective of artistic quality" as does the U.K. Act of 1956, Copyright Act 1962, (N.Z.), s.2(1). The Dalglish Committee recommended these amendments for two resons. First, the Committee saw the denial of copyright protection to industrial designs as wrong in principle and therefor saw no justification for denying designs, many of which were of high artistic quality, such protection. The denial of copyright was made all the more anomalous in the Committee's view by the fact that such works as "trade circulars, timetables or advertising posters" (presumably frequently of limited artistic quality) did receive copyright protection. Committee Report, p. 118. New Zealand retained an industrial design statute, again on the recommendation of the Dalglish Committee as the Committee believed, "...many of the designs that are now registered could hardly be regarded as original artistic works," and so would not qualify for copyright protection. Committee Report, p. 118. It appears that the Committee may have failed to foresee the wide scope of copyright protection, particularly in the light of the amended definition of "artistic work."

The results of the changed New Zealand law are illustrated by P.S. Johnston & Associates Ltd. v. Bucko Enterprises and Others, [1975] 1 NZLR 311. In that case the plaintiff's engineering design drawing of a short length of rubber pipe designed to connect toilet pans to sewage waste pipes received copyright protection. As a result the defendant, who produced his own pipe by copying pipe produced by the plaintiff according to the drawing, was found to be an infringer, and every pipe it produced was an infringing copy.

The design for the pipe was not registered as an industrial design. It is possible, of course, that the pipe design might not have qualified for industrial design protection, e.g., because it was not novel or was dictated by function.

33. The Berne Convention (Rome), supra, note 29, Art. 7(1) requires that the term of protection for ordinary copyright be life 50 years. Canada could not vary from that minimum standard without renouncing the Convention. See below, Ch. 14, note 26.

The most recent revision of the Berne Convention (Paris, 1971) reproduced in UNESCO, Copyright Laws and Treaties of the World, (1978) in Art. 7(4) provides that the minimum term for "works of applied art insofar as they are protected as artistic works" shall be 25 years. Canada has not adhered to the Paris revision. The provision of such a shorter term reflects the concern of many member countries that the ordinary copyright term is too long for such works.

A number of authorities have regarded the copyright term as too long for industrial designs: Gregory Committee Report, Supra note 13, (U.K., 1952), p. 87; Johnston Committee Report, Supra, note 24, (U.K., 1962), p. 83; Reform of the Law relating to Copyright, Desings and Performers' Protection, (U.K., 1981), p. 4.; Cornish, W.R., "Cumulative Protection For Industrial Designs." (1973), 8 UBC Law Rev. 219 at 242. However, see the Franki Committee Report, 1st Reference, Supra, note 31, (Australia, 1973) which saw the copyright term as too long for three-dimensional designs, but not for two-dimensional designs, pp. 52-58.

34. See the conclusions in Part I. As for arguments based on the fairness of treatment of designers vis-à-vis artists see above, also.

35. Interest in this possibility began to be stimulated by developments in the U.K., particularly by L.B. Plastics Limited v. Swish Products Limited, see above note 7. The uncertainties derive from the meaning of "artistic work" in the Canadian Copyright Act, see above note 7. See also Gould, R.D. Copyright in Three Dimensions - New Dimensions (1981) PTIC Bulletin, Series 8, Vol. 10, p. 534.

36. See above, text at note 34.

37. See above, text before note 11.

38. See above, Part I.

39. See above, text before note 13.

40. See above, Ch. 2 text at notes 124 and 125.

41. The elimination of the additional period of protection (the period copyright would extend beyond industrial design protection) for such designs would not appear to have much effect on the incentive effects of the copyright system. Since by definition such works must have been created without an intention to apply them as industrial designs, copyright protection for them as designs could not have played a role in the incentive for their creation as artistic works. Given the dynamic nature of the market for designs, and the uncertain life of any design, it would appear that in many cases the protection available beyond ten years from applying the artistic work as an industrial design (ten years being the industrial design term of protection) may be severely discounted. Thus the elimination of such protection may play little role in reducing the incentive to apply such works as industrial designs.

42. The *Berne Convention (Rome)*, *Supra*, note 30, Art., 4(2), requires that copyright protection be available without "the performance of any formality," which precludes a requirement of registration or deposit as a condition of protection. The following have considered this difficulty: *Gregory Committee Report*, p. 87, para. 240; *Johnston Committee Report*, p. 6; *Whitford Committee Report*, *Supra*, note 32, *per* a minority, pp. 47 and 51. See below, Ch. 14 at note 26.

Mr. Roy Jackson's proposals for design law reform involve the continuance of some form of register. See "A new Approach to Protection for the Designs of New Products" (1956), 34 CBR 369 at 385-386.

The *Franki Committee Report*, 1st Reference, pp. 52-55, supported mandatory registration for three-dimensional designs, but not for two-dimensional designs which were to receive copyright protection. However, *Reform of the Law relating to Copyright, Designs and Performers' Protection*, (U.K., 1981) p. 7 rejects a registration or deposit requirement and prefers "the advantage of automatic protection."

43. Art. 4(2) of the *Berne Convention* (Rome), *supra*, note 29, is also interpreted to exclude a requirement of marking. Roy Jackson's proposals and design legislation proposed for the U.S. both feature marking requirements. Jackson, *op. cit.*, (note 42), p. 386; H.R. 4530, (note 19), s. 906. See below, Ch. 14 at note 26.

The Whitford Committee Report, supra, note 32, p. 47 also proposed a requirement of marking for its copyright-type design protection scheme.

44. Even where protection for industrial designs was available under copyright principles, there would be grounds for denying protection, e.g., lack of originality which could be particularly important in limiting the application of copyright to the functional aspects of designs. See Johnston Committee Report, Supra, note 25, pp. 28, 29-30, where it is concluded that a deposit system should be required in respect of the proposed design-copyright scheme in that Report.

45. See The Industrial Design Registration No. 43273 For a Nutcracker (1977) 45 CPR (2d) 238 (P.A.B.) at 247.

46. Johnston Committee Report, supra, note 24, pp. 26-27. Brief of the Register of Copyright, in Esquire v. Ringer, 199 USPQ 1 at 4, note 15. Katzenburger, "Protection of Industrial Designs in Germany," (1975) 6 IIC at 313-134.

47. Register of Copyright, see note 46.

48. This would be particularly true of non-representational designs. To the extent that such designs account for a larger proportion of product design the problem is increased. We believe that the statement is true even in relation to representational designs to some extent when comsumer expectations about fashion and appropriateness of designs for particular types of products is taken into account.

49. Johnston Committee Report, supra note 25, p. 27.

50. Ibid., p. 29.

51. Copyright Act, supra, note 3, s. 21, Cornish, supra note 7, p. 326.

52. See above, text at note 12.

53. Swan Committee Report, supra note 13 p. 62. The Swan Committee's criticisms were approved of in the Gregory Committee Report, supra note 13, p. 86 and the Royal Commission on Patents, Copyright, Trademarks and Industrial Design Report, on Copyright (1957), pp. 73-74.

54. See above, text at note 11.

55. It was noted that to be meaningful reproduction by an "industrial process" must be interpreted as reproduction as applied to a functional article, above at note 18.

56. Gregory Committee Report, supra note 13, pp. 85-86. The Committee did note that the intention of the creator of the design, "... is in many cases indicative of the kind of work concerned and so a natural pointer to the appropriate statute for its protection." Presumably the Committee meant that when the original intent was not to create a work to be applied to functional articles, the work would be an artistic work which retained its essential qualities as an artistic work even when later applied to a functional article as a design. On the other hand when the intent was to create a design to be reproduced as applied to functional articles, the type of work would tend to be primarily or purely an industrial design, for example the shape of some utilitarian object, which ought to receive protection only as an industrial design. However, as noted below in the text the correlation between the intent and the production of designs of primarily an artistic or industrial design "type" is far from perfect. A further reason for rejecting this observation of the Gregory Committee as a basis for policy making is that it gives no weight to the reasons for treating industrial designs differently from artistic works protected by copyright, which reasons apply to designs derived from works not originally intended to be applied to functional articles, to the extent that such works are actually applied as industrial designs. See above text at note 33.

57. Examples can be found in some two-dimensional designs for application to the surface of articles as ornamentation which are much like some two-dimensional artistic works that are later adapted as designs for the ornamentation of the surface of articles. There are also examples in some three-dimensional designs, e.g., for lampbases, that are much like some original sculptures which are later applied as designs to such purposes as lampbases.

58. Nevertheless a minority of the Johnston Committee did advocate that the U.K. adopt law which provided that copyright would not extend to designs where the "substantial purpose" in making the original work was that it be applied as an industrial design. The minority saw this approach (much like that now used in Canadian law) as simpler than the current U.K. law (see below in text at note 59). In addition the minority argued that the earlier British experience with a distinction based on the intent of the designer had proved workable. Johnston Committee Report, supra, note 25, pp. 95-97.

59. Avove text at note 19, for definition, supra, note 25, of "utilitarian article".

60. Gregory Committee Report, supra, note 13, pp. 88-93.

61. Ilsey Commission, Report on Copyright, supra, note 53, pp. 71-75.

62. This is subject to the qualifications discussed below in the text at notes 64-68. Reproduction of the copyright-protected work in the form of an industrial design without the consent of the owner of the copyright would constitute infringement.

63. Gregory Committee Report, supra, note 13, p. 88.

64. Ibid., pp. 90-91.

65. Ibid., p. 90.

66. Loc. cit.

67. Ibid., p. 91. The latter recommendation is consistent with the view that one problem with duality of protection is that copyright protection persists after the design registration has expired.

68. In this context consideration should be given to enacting a provision like that recommended in the Franki Committee Report, 1st Reference, supra, note 40, p. 61, which would ensure that no copyright that might exist in artistic (or other) works contained in an industrial design, utility model, patent or copyright registration made in Canada or elsewhere could be exercised so as to frustrate the intention of the proposal made here on the loss of copyright for industrial designs.

69. The Gregory Committee, supra, note 13 proposals as to this first provision were adopted as s.19(1) of the U.K. Copyright Act 1956, supra, note 8.

70. Section 19(1) of the U.K. statute applies only to "artistic works." This is adequate provided that no other type of work can be applied to the purposes of industrial design. The present Canadian copyright statute includes "plans" within the definition of "literary works". Copyright in Canada, Proposals For a Revision of the Law (1977) pp. 45-46 recommends modifying the present definition of "literary works" so as to exclude references to "maps, charts or plans."

71. In terms of the reproduction of the design applied to functional articles the loss of copyright is restricted to the scope of protection acquired under the Industrial Design Act registration. Reasonable certainty is produced for the public as industrial design protection is acquired in relation to the specific registrations obtained and the loss of copyright is co-extensive with this. However, the scope of loss of copyright ought also to take account of the recommendation above concerning loss of copyright sufficiently broad to permit other forms of reproduction of the design, e.g., in advertising necessary to marketing articles bearing the design. This would ensure, for example, when the copyright owner had assigned title to the design registration and a third party had secured a licence from the owner of the design registration that the owner of copyright could not prevent the licensee from illustrating the design in advertising for articles for sale bearing the design. See also the recommendations in Ch. 7, below, text at notes (106-114).

72. See above, text at note 67. The phrase "all associated designs and articles" appears in the U.K. Copyright Act, 1956, supra, note 8. s.19(1) (b) and is defined in s.10(6). See also the extended loss of copyright recommended in the text after note 67, above.

73. See Johnson Committee Report, supra, note 25, pp. 89-90. U.K. Copyright Act 1956, s.10(1), First Schedule.

74. The criticisms of several drafting and procedural points of the First Schedule contained in the Johnston Committee Report, supra, note 25, pp. 89-90, should be noted.

75. The broad scope of the loss of copyright is discussed above in the text at notes 65 and 66. In addition, note the further loss of copyright recommended in the text after note 66. It should be noted that the U.K. legislation when enacted did not completely follow the Gregory Committee recommendations on the broad scope of loss of copyright in this context. As the Johnston Committee indicated, the Gregory proposal that copyright be lost immediately for all designs that were recognizable variations of the original design was seen as, "...too ruthless to be acceptable to Parliament" (p. 94). The Johnston Committee did not recommend adopting the original Gregory proposal. However it was conceded that there may be some uncertainty about the scope of loss of copyright for the period of 15 years after the first marketing of articles bearing the design under s.10(3) of the U.K. Copyright Act 1956, which was limited to copyright in respect of articles that had actually been marketed. After such 15 year period the broad scope of loss

of copyright proposed by the Gregory Committee did take effect under the U.K. law as enacted.

As in the Ilsley Commission Report on Copyright, supra, note 52, pp. 74-75, the adoption of the original Gregory proposal concerning the broader loss of copyright immediately on marketing the design is recommended.

76. Sections 10(2), (3) of the Copyright Act 1956 before they were amended by the Design Copyright Act 1968 are being referred to in the text.

77. Dorling v. Honnor Marine Ltd., [1964] RPC 160 (CA). The Whitford Committee Report, supra, note 31, p. 29, refers to the result as "bizarre". A similar result has been reached under Canadian law, see Kilington Bros. v. Goldberg supra, note 9.

78. See above, text at note 33-51.

79. Like the Gregory Committee and as in the U.K. statute, it is not suggested that copyright be lost if the work is applied to a utilitarian article without the consent of the copyright owner. There is no provision, then, dealing with the position of a third party who relies upon the fact that the copyright protected work has been applied industrially and therefore has assumed that copyright has been lost, he having no knowledge of the fact that the work has been so applied without the consent of the copyright owner.

Such an innocent third party is in the same position as any other innocent infringer of copyright. The present copyright law provides some protection for such persons in s.22 which limits the plaintiff to an injunction (against future infringement) when the defendant proves he was unaware copyright subsisted in the work and had no reasonable ground for suspecting that it did. See Gribble v. Manitoba Free Press Copyright in Canada, (1931), 3 WWR 570. Note that some recommendations of Copyright in Canada supra note 70, pp. 182-183, would limit the availability of this defense in ways which would have an adverse effect on defendants in situations like that suggested above. Note particularly, the recommendation that innocence be a defence with respect to indirect infringement only, p. 183, no. 5.

80. Unlike the definition of "industrial design" for the purposes of the industrial design statute the features of appearance are not limited to those usually visible when the article is used or purchased, and is not subject to any limitation imposed on the availability of industrial design protection for parts of articles. Where under the design

statute the definition of design is narrowed to avoid offering industrial design protection to designs that ought not to be protected, in the provision dealt with here the definition of design is broadened to insure that copyright protection does not extend to designs which ought not to be protected.

81. See above, text at notes 19 and 30.

82. See above, text at note 66.

83. See above, text at note 68. See also below Ch. 7, text at notes (106-114).

84. Fysh, supra note 18, pp. 45-55.

85. Fysh, supra note 18, pp. 49-50.

86. These activities are specified in the U.K. Copyright Act 1956, s.10(2) (a).

87. Generally, experimental use will not constitute publication. Fysh, supra note 18, p. 52.

88. See above, text at note 80.

89. See below, note 150, for further recommendations and discussion concerning this type of possible extension of copyright.

The proposals go beyond the recommendations of the Gregory Committee or the U.K. legislation, neither of which extended loss of copyright to cases of use or publication without marketing. Gregory Committee Report, supra note 13, p. 89.

90. U.K., Copyright (Industrial Designs) Rules 1957, S.I. 1957, No. 867. The regulation is derived from the U.K. predecessor to the present Canadian Industrial Design Rules, Rule 11. See above, text at notes 11 and 14.

91. Except experimental use, above text after note 86.

92. The present s.10(2) (b) reflects criticisms of the Johnston Committee Report, supra note 24, pp. 91-93, of the original s.10(2) (b) which did not make it clear whether loss of copyright occurred when products bearing the design were marketed outside the U.K.

93. See below, Ch. 7, following note 84 and Ch. 4 text at notes (19) and (20).

94. Franki Committee Report, supra note 31, p. 62.

95. Above text at note 30.

96. One of the essential elements in the proposed definition of "industrial design" is that it constitute features of appearance of functional articles, supra text at note 19.

97. Since the artistic work is not being applied to a functional article (in the sense in which the latter has been defined for the purposes of the industrial design law), an industrial design is not created.

98. Under the existing industrial design law it is also likely that registration could no longer be obtained as the design woud have been published for more than one year.

99. The recommendation was adopted as Copyright Act 1956, supra note 7, s.10(4).

100. The extended section proposed (compared with that in the U.K. law) reflects the somehwat different basis for the definition of "industrial design" proposed in this paper with its express reference to application of a design to a utilitarian article, supra text at notes 14 to 18. The rules actually promulgated under the rule-making power referred to in the U.K., supra text at note 20, deal to a considerable extent in fact with a distinction between designs applied to utilitarian articles (which are industrial designs) and things which are primarily artistic or literary in the sense that their function is to give information or to be contemplated for their artistic qualities (which are works to be protected exclusively by copyright).

See a provision similar to that recommended in the text in the proposed, but not enacted, U.S., industrial design statute, H.R. 4530, 96th Cong., 1st Sess., s. 909(f), 912(d).

The relationship of the proposal in the text to the recommendation made below that all rejected applications for industrial design registration be published should also be noted. See below Ch. 4, text at note (29).

101. See above, text at notes 69-72.

102. See above, text at notes 75-79, and following.

103. It must be recognized as well that the proposal for loss of copyright referred to in the text will also not be

adequate to prevent the attempt to use copyright to claim protection for functional aspects of designs to the extent that the proposed definition of "industrial design" for that provision might prove inadequate to include all cases of designs for functional elements being applied to utilitarian objects. For reference to the proposed definition see above text at note 80. For reference to the overlap of copyright and trade secret protection see below at note 150.

104. See above, text at note 8.

105. *L.B. (Plastics) Limited v. Swish Products Limited*, [1979] RPC 551 (HL). Similar cases: *Merchant Adventurers Limited v. M. Grew and Company*, [1973] RPC 1; *Sifam Electrical Instrument Company Limited v. Sangamo Weston Limited*, [1973] RPC 899; *Antocks Lairn Limited v. I. Bloohn Limited*, [1972] RPC 219; *Dorling v. Honnor* [1964] RPC 160 (CA); *Nichols Advanced Vehicle Systems Inc. v. Rees, Oliver at al.*, [1979] RPC 127.

See also the New Zealand case *P.S. Johnson and Associates Ltd. v. Bucko Entreprises Ltd.*, [1975] 1 N.Z.L.R. 311., and Crew, Micheal, "Undesirable in Theory, Absurd in Practice - the Protection of Industrial Designs in England and New Zealand," [1975] Auckland Law Rev. 1; Moon, K.R., "Copyright in Artistic Works: The Extension To Mechanical Design," [1979] NZLJ 282.

The drawer for which protection was recognized in *L.B. (Plastics)* (*supra*, note 8) was that part of the drawer which is not seen when the drawer is closed, and most of which would be obscured by drawer contents when the drawer was open. The furniture manufacturers who purchased the drawers attached their own "facia" (the visible part of the drawer when it is closed) which were not part of the plaintiff's design.

Reform of the Law relating to Copyright, Designs and Performers Protection, A Consultative Document, 1981, "U.K. Cmmd. 830) U.K. Consultative Document" at p. 5 notes that the interpretation of the copyright law in the noted cases would result in copyright protection for "purely functional" articles with "no visual appeal".

106. In *L.B. (Plastics)* [1979] RPC 551 at 579 Whitford, J. states, "...it is trite law that there is no copyright in an idea as such, for example, as the idea of a particular method of joining backs and sides of plastic extrusions for drawers together."

The similarities of the plaintiff's and defendant's drawers appear to have resulted from the defendant's adoption of the plaintiff's system of latching the drawer pieces together, the adoption of "unhanding" the pieces (*i.e.*, so designed that all pieces could be used both for *left* and right sides of the drawer and so lessen handling in assembly), and the fact that the defendant' s drawer had to fit into furniture designed to take the plaintiff's drawer (the plaintiff was first and dominant in the market for such drawers), *e.g.*, in relation to the positioning of the groove to take the runner for the drawer. The testimony of design experts as to the identify of the plaintiff's and defendant's products, of which the court appears to approve as showing infringement, refer repeatedly to functional aspects, *e.g.*, Mr. Asquith (p. 576), "...the critical *dimensions* overall were identical, certainly the *methods of clipping together* and sort of overall *construction* of it." [Emphasis added]. It was clear that the plaintiff's and defendant's drawers were not identical and that the defendant had attempted to make its drawer appear different within the limitations referred to above. Mr. Asquith's testimony (p. 577), "Well, obviously there are certain *differences visually*, but I would still maintain, really, that the *methods of assembly* and the *idea* of the thing is really identical." [Emphasis added].

107. Fox, *supra* note 7, p. 156 citing *Hay and Hay Construction Co. Ltd. v. Sloan et al.*, (1957) 16 Fox Pat C. 185 at 189.

108. *Copinger and Skone-James on Copyright*, (1980) 12th Ed., para. 176.

109. *Ibid*., paras. 176 and 152, the latter referring to *University of London Press Ltd. v. University Tutorial Press Ltd.*, [1916] 2 Ch. 601.

110. *Cuisenaire v. South West Imports Ltd.*(1967), 54 CPR 1 at 21 *per* Noel, J. A similar view was put forward in *Cuisenaire v. Reed*, [1963] VR 719. In the U.K., the House of Lords were less clear on whether the intent of the artist was the critical test and if it was not, what was the meaning of "artistic." *George Hensher Ltd. v. Restawile Upholstery (Lancs.) Ltd*., [1975] RPC 31.

111. *Copyright Act 1956*, *supra* note 7, s.3(1) (a). *Gregory Committee Report*, *supra* note 13 p. 94.

112. It has been suggested that the addition of the phrase, "irrespective of artistic quality" merely made explicit what had already been established to be the meaning of "artistic work" under the U.K. 1911. Act. It was noted above that

the present Canadian statute is based on the 1911 legislation, and so that view of the meaning would apply to Canadian law, if it is accurate. Copinger and Skone-James, 12th Ed. supra note 108, para 176.

The cases interpreting "artistic" referred to above were all interpreting it as it appears in works of "artistic craftsmanship" which is one type of work appearing within the definition of "artistic work." The U.K. 1956 act makes it clear that "irrespective of artistic quality" does not apply to "artistic craftsmanship." The structure of the Canadian statute definition ("artistic craftsmanship" appearing within the definition of "artistic works") may give the same result. It may be argued that "artistic" must have different meanings as it appears twice in the same definition, and "artistic" as applied to "work" must be broader than "artistic" as applied to "craftsmanship" for the former to include the latter, and if they had the same meaning the second "artistic" (before "craftsmanship") would be redundant.

113. Ilsley Commission Report on Copyright, supra note 53, p. 43. Copyright in Canada, p. 48.

It should be noted that there has been some debate in the U.K. concerning the meaning of the phrase "irrespective of artistic quality." Mr. M.C. Dobbs has put forward the view that the phrase means simply that artistic merit, in the sense of good vs. bad art is not to be required, but that the phrase does not exclude a requirement of an artistic character or type. Recent interpretations of the phrase by the courts, see above note 8, do not reflect Mr. Dobbs's view. M.C. Dobbs, May, 1977, p. 120; "Whitford Report - Engeneering Drawings," CIPA, October, 1977, p. 50; "Copyright - I and II," (1979) 123 Sol. Jo. 558 and 579.

114. See note 108, above.

115. Copyright in Canada, supra note 70, p. 48; Gregory Committee Report, supra note 13, p. 94.

116. "Literary Character Essential: Two things must, however, be distinguished in considering whether an author has or has not produced a literary work. It is necessary to distinguish, on the one hand, between literary skill, quality or merit, of which there must be only a certain definite quantum to be ascertained according to the facts of each case, and which is a question of degree, and, on the other hand, literary character, which is a necessary ingredient." Fox, supra note 7, p. 101. See generally pp. 101-102 and cases cited there.

The development of U.K. copyright law, including the cases referred to in note 7, appears to have driven British text writers to have to treat the cases and concepts referred to by Fox in a somewhat different manner. There is a widespread view under U.K. copyright law that anything in print or writing is potentially a "literary work." All that is needed to establish that any printing or writing is a literary work is a showing of "originality," i.e., that the work is not copied from an earlier work and that there was some minimal skill and effort involved in creating it. What may not have received sufficient attention is that the skill and effort ought manifest itself in the form of expression and not the ideas or information itself, under classical copyright theory.

See Ladbroke (Football) Ltd. v. William Hill (Football) Ltd., [1964] 1 WLR 273 (HL). In Copinger and Skone-James, 12th Ed., pp. 158-159 it is conceded that some works have been denied protection (and implicitly should still be) "on the ground of triviality." However, the cases referred to by Fox, above, are dismissed as being under "the old law."

The leading U.S. writer on copyright notes that there is still a residual requirement of literary character (which he identifies as "creativity") to qualify for protection under the U.S. law. Like the British cases noted by Copinger and Skone-James, above, the cases noted are those "where admittedly independent efforts are deemed too trivial or insignificant to support copyright". Nimmer on Copyright (1980), s.20[B].

The scope of the surviving requirement of literary character in modern copyright is problematic. It is clearly seen as a minimal requirement. The originally judicially fashioned extensions of literary copyright to directories and other compilations as a means of protecting the investment in gathering the information in such publications marked the movement in the general direction toward protecting anything in which money had been invested in producing which is expressed in written or printed form. It is well beyond the scope of this paper to suggest a re-examination of the appropriateness and implications of protecting such investments through literary copyright. The point of this note is that if the fundamental objection to retaining a requirement of artistic character for artistic works is that it is a type of requirement which is unknown for other types of copyright protected works, in particular literary works, the response is that such a requirement has been, and at least to a limited degree, may continue to be applied to literary works.

117. Unlike recent U.K. law concerning the nature of artistic works, the U.S. law appears to contain a clear requirement of artistic character in order to have an artistic work eligible for protection under copyright. Professor Nimmer suggests that greater clarity, in understanding the requirements, can be achieved by recognizing that within the requirement usually referred to as "originality" are two requirements: "originality" in the sense of requiring an independent creation by the author, i.e., not copied, and "creativity," a requirement, "over and above the requirement of independent effort" and not to be confused with novelty as novel works may, "yet lack the spark of artistic expression associated with creativity." [Emphasis added]. Nimmer on Copyright (1980), s.2.01[B], note 33.

> "If the creativity requirement is applied to such other types of works it is purely a matter of policy, i.e., a determination that it is not desirable for copyright laws to protect a work completely lacking in creativity. With respect to works of art, however, the requirement of minimal cretivity is applied not as a matter of policy, but rather as a matter of definition. That is, unless a work evidences some creative authorship, it cannot by definition be regarded as a work of art." Nimmer on Copyright, s.2.08[B].

The above statement is quoted to indicate the existence of such a requirement in U.S. law. However, the requirement of an artistic character is a reflection of sound policy and not simply a question of "definition". The quoted particular explanation of it (at least in terms of policy analysis) seems somewhat question-begging.

The important value of the requirement of artistic character as the U.S. experience shows is that it provides the ground for excluding from protection as artistic works highly functional designs for articles or designs for highly functional articles. Nimmer on Copyright, s.2.08[B]. Gottlieb, George, "Infringement of Pictorial, Graphic and Sculptural Works," PLI, Course Handbook No. 134; Infringement of Copyrights (1981), pp. 173-175. It is the requirement of an artistic character which has in part permitted the U.S. Copyright Office to refuse copyright registration for such designs. "When you look at an article like an automobile's overall configuration or a refrigerator's, you do not see a work of art. You see a refrigerator or an automobile. In that area, granted, you do not have copyright protection..." Ringer, Barbara A., "Copyright in the USA" (1981) PTIC Bulletin, Series 8, Vol. 10, p. 552.

118. See above, text at notes 21-26. Dobbs, "Copyright - I" (1979), 23 Sol. Jo. at 559.

119. Gregory Committee Report, supra note 13, p. 94, George Hensher Ltd. v. Restawile Upholstery (Lancs.) Ltd., above note 106, may be cited in this context. "It was an astonishing case, in one respect, in that the House of Lords rejected definitions of "artistic" framed by the trial judge, the Court of Appeal, counsel for the plaintiffs and two by counsel for the defendants, further each member of the House of Lords hearing the appeal provided a definition of his own." Copinger and Skone-James, supra note 87h, p. 178. However, it also ought to be noted that of the nine judges who decided the case, eight could agree on the same result, i.e., the work was not artistic.

120. See Nimmer on Copyright (1980), s.2.08[B], note 65.

121. See notes 105-110.

122. "I am conscious... of the need to avoid judicial assessment of artistic merits or quality, but I do not think that any such assessment is involved in deciding whether a work is an artistic work." Hensher v. Restawile, above note 106, p. 63 per Viscount Dilhorne.

123. This reflects the principle that copyright protects only the form of expression and not the underlying substance or ideas, see below in the text. In distinguishing between the form of expression and the underlying substance in relation to artistic works, one is essentially endeavouring to identify those elements which express the artistic character of the work and to distinguish them from the underlying substance or ideas.

124. See note 105.

125. The text does not deal with whether it would be desirable to attempt to define "artistic character" in the statute. Generally, it would not be desirable. The concept ought to remain flexible so that it can be adapted to particular circumstances. A definition runs the risk of excluding material that might properly be regarded as artistic, perhaps particularly in the light of changing community attitudes as to the nature of art. If any statutory guidance as to the meaning of artistic character is attempted it ought to indicate some factors that may be considered in assessing artistic character, and could rank those factors in the order to which weight ought to be given to them. The factors which ought to be considered are (i)

intent of the author to direct the work to the sense of aesthetic appreciation; (ii) "the historical and ordinary conception of the term art" [Nimmer on Copyright (1980), s.2.08 [B] [1] note 67 quoting Bailie v. Fisher 258 F. 2d. 425 (D.C. Cir. 1958), including the opinions of experts (See Hensher v. Restawile; (iii) whether the work is regarded as art "by any meaningful segment of the population," [Nimmer on Copyright (1980), s.2.08 [B] [1] and see Hensher v. Restawile.]

While it is true that no consensus emerges from the cases on the precise meaning of artistic character, the cases demonstrate that the above factors are generally considered as the most relevant, and are probably relevant in the order suggested above.

126. For example, Jackson, Roy, "Proposals for New Industrial Design Legislation", (1956) JPOS 371 at p. 374.

127. Lahore, Intellectual Property in Australia: Copyright (1977), p. 197.

Professor Nimmer also suggests the difficulty in the distinction, "The House Report expressly endorses and perpetuates under the current Act this 'idea-expression' dichotomy. This however is but a reformulation not a solution of the problem. In one of his last copyright cases, Judge Learned Hand said, "Obviously, no principle can be stated as to when an imitator has gone beyond the 'idea', and has borrowed its 'expression.' Decisions must therefore inevitably be ad hoc." [footnotes omitted]. The "problem" to which Professor Nimmer was referring was to formulate an explanation of cases in which infringement was found quite properly but where, "there is comprehensive similarity but no word for word or other literal similarity." The difficulty is made clearer perhaps by noting that to some degree "comprehensive similarity" could be seen as similarity of ideas and "literal similarity" could be seen as similarity of form of expression. Nimmer on Copyright (1980), s.1.03 [A] [1], pp. 13-19, 13-17.

128. Gregory Committee Report, supra note 13, p. 95, para. 258.

129. "The making of an object of any description which is in three dimensions shall not be taken to infringe the copyright in an artistic work in two dimensions, if the object would not appear, to persons who are not experts in relation to objects of that description, to be a reproduction of the artistic work." Copyright Act 1956, supra note 8, s.9(8).

130. Copinger and Skone-James, supra note 108, p. 229.

131. An example of this approach may be Burke & Margot Burke Ltd. v. Spicer's Dress Designs [1936] Ch. 400 in which the court found that a dress did not infringe a sketch of a woman wearing a dress, even though the sketch has been done by a fashion designer for the purpose of illustrating the dress design. The view of the court seemed to be that no matter how clearly the sketch may have illustrated the detail of the dress design, and no matter that the dressmaker had copied the sketch in making the dress, the dress was not a woman standing wearing a dress and therefore the former could not be a reproduction of a sketch of the latter.

132. Copinger and Skone-James, supra note 108, p. 182. Fox, supra note 7, p. 384-385. Copyright Act, s.3(1). See above, note 127 and the comments cited of Professor Nimmer where he described the idea-expression dichotomy as simply a restatement of the substantial part test and noted the difficulties in applying both tests.

133. Copinger and Skone-James, below note 135, p. 183. Ladbroke v. William Hill, [1974] 1 W.L.R. 273 per Lord Pearce, cited in L.B. Plastics Limited v. Swish Products Limited, [1979] RPC 572 per Whitford, J.

134. Copinger and Skone-James, below note 135, p. 183.

135. L.B. (Plastics) Ltd. v. Swish, [1979] RPC 551 (HL).

136. Solar Thomson Engineering Co. Ltd. v. Burton, [1977] RPC 527. The courts have also taken account of written matter on the drawings L.B. (Plastics), note 135. In addition the courts have been prepared to find that an article infringed a set of multiple drawings, Nichols Advanced Vehicle Systems Inc. v. Rees, [1979] RPC 127. In addition the courts have accepted expert evidence on the question of whether the article in fact is a reproduction of the drawings, L.B. (Plastics), note 135.

137. Copyright in Canada, supra note 70, p. 169. Ilsley Commission, Report on Copyright, supra note 53, p. 71.

138. Section 9(8) has been much discredited by the British courts which have seemed quite unsympathetic to its apparent purposes. "I find it impossible to discover any sensible reason why, in circumstances such as these, defendants who copy a plaintiff's two-dimensional drawing (in which the plaintiff owns the copyright) and constructs a three-dimensional drawer from it and thereby infringes that

copyright, should be taken, not to have done so merely because persons who are not experts in "knock down" drawers would fail to recognize that the plaintiff's copyright had been infringed," "*L.B. (Plastics Limited v. Swish Products Limited,* [1979] RPC 635 *per* Lord Salmon.

The *Gregory Committee*, *supra* note 12, in its recommendation laid stress on the fact that their proposed section would limit infringement as the reproduction of three-dimensional articles to the *outward* appearance of *fully-finished* articles. The Committee believed that this would be effective in limiting the effect of copyright on functional elements since many engineering drawings and similar plans, "frequently contain no sketch or view of what would be outward appearance of the article." (p. 95) and so making a finished article would not constitute infringement under their proposal. Section 9(8) as enacted is not limited to the outward appearance of finished articles. If it were so limited the decisions involving cross-section and exploded views might not have been reached. (See above, note 87ai).

The method adopted by the courts of applying s.9(8) appears to have substantially eliminated any limited success it might otherwise have had. Section 9(8) is treated as a defence (quite reasonably in the light of the structure of the statute) to be considered only after the court has found there has been copying, often after extensive expert testimony on the similarities between the plaintiff's drawing and the defendant's object. It seems to be asking too much of a judge, however fair-minded or careful, to only then turn to the question of whether the copying would be apparent to an uninstructed layman.

The U.K. courts have held that the hypothetical non-expert under s.9(8) can be assumed to have some knowledge of an ability to read technical drawings. This is consistent with s.9(8) which refers to non-expertise in the type of object produced and makes no reference to non-expertise reading drawings. However, it may not be reading too much into the Gregory Committee recommendation to suggest that they saw their hypothetical layman as a non-expert in drawings as well as type of objects.

While a more effective form of s.9(8) could be drafted by eliminating problems like those described above. It is not recommended that this be attempted. Even a better drafted s.9(8) will represent an indirect method of dealing with the problem of copyright and functional elements of articles.

It should be noted that s.9(8) may not, as was suggested above, note 130, simply restate an already accepted test of the "lay-observer" as a standard of infringement. While such a test is frequently referred to in U.S. copyright cases, it seems far less frequently encountered in British and Canadian decisions. In L.B. (Plastics), above note 135, Lord Wilberforce notes specifically that the test is, "well known ...in American law" (p. 622), without commenting on its notoriety in British law. Further, it may be that the test is more accurately stated as a test of the "intended audience" for the work - which for many works protected by copyright happens to be an ordinary lay audience. Gottlieb, "Infringement of Pictorial, Graphic and Sculptural Works," (1981) P.L.I., Infringement of Copyright, Handbook No. 134, at p. 185. If s.9(8) imposes a test of a true lay audience in every case it is doing something beyond the "intended audience test." Who is the intended audience for the blueprints of a nuclear power plant? Nimmer on Copyright, (1980) s.13.03[E] is critical of the potential oversimplification of a "lay audience" test and what he sees as the potential wrong approach in excluding expert evidence and analysis in assessing infringement.

139. The requirements which should limit the application of copyright to functional elements are: (i) Originality, see Nimmer on Copyright, s.2.08[B], note 115.1. Nimmer notes that where the features of an object are "mandated" by function there would be no scope for originality of expression and therefore no work protectable by copyright. The utility of the originality concept in excluding functional designs from copyright protection will depend in some measure on the degree of originality required. While it is possible to find authority for a requirement of "substantial" originality, this formulation is almost always immediately countered by statements that it is sufficient if there is "minimal" or "a faint trace of" originality. Durham Industries, Inc. v. Tomy Corp., 208 USPC 15 (2d Cir. 1980). Fox, supra note 7, p. 152. (ii) Artistic character. Nimmer on Copyright, (1980) s.2.01[B], 2.08[B] [1]. See above, note 87 q. Again the utility of this requirement in excluding functional aspects will be limited by the degree of creativity or artistic character required. (iii) Idea-Expression distinction. See above, text at notes 126 and 127.

140. Above, note 103.

141. See cases noted in "Copyright Protection for Mass-Produced Commercial Products: A Review of the Developments Following Mazer v. Stein (1971), 38 U. Chi. L.R. 807.

142. "...the plaintiffs have devoted much work and money and ingenuity...[to the development of their football betting coupon]," Ladbroke v. William Hill, [1964] 1 W.L.R. 272 per Lord Pearce. Quoted in L.B. (Plastics) v. Swish, [1979] RPC 572 by Whitord, J. "But like all such designs, much skill, labour and investment had gone into its development over the two years of travail," L.B. Plastics v. Swish, [1979] RPC 624 per Lord Hailsham of St. Marylebone. "Copyright Protection for Mass-Produced..." (1971) 38 U. Ch. L. Rev. 821 notes the stress on "...the amount of time, money and effort expended by the plaintiff."

143. "Copyright Protection for Mass-Produced...," note 87ao. "By the time of the matters in dispute the range of the appellant's products...were the market leaders...." L.B. Plastics v. Swish, [1979] RPC 624 per Lord Hailsham of St. Marylebone.

144. L.B. (Plastics) v. Swish, [1979] RPC 618.

145. "Copyright Protection for Mass-Produced...," note 142 at p. 822.

146. "Infringement of some other person's rights at law is a risk taken by all copyists." L.B. (Plastics) v. Swish, [1979] RPC 569 per Whitford, J.

147. The fact that the patent system gives a "true monopoly" in an invention rather than only protecting against copying does not affect the argument. While independent invention of the same invention does occur, the chief risk against which patent owners seek to be protected is copying. A central argument favouring the patent system is that its protection encourages inventors to disclose inventions that they fear would be copied if disclosed without the protection of the system.

The argument that the copyright system should be distinguished from the patent system on the basis that it protects only the form of expression and not the underlying ideas is only valid if the copyright system is in fact being applied so that ideas and technical concepts are not being protected.

148. Above, text at and after note 33.

149. Nichols Advanced Vehicle Systems Inc. et. al. v. Rees, Oliver et al., [1979] RPC 127 is a case, for example, in which one might have expected to see some consideration of an action based on trade secrets or confidential information.

However, the case was dealt with exclusively as an action of infringement of copyright.

The conceptual overlap of a broadly applied copyright statute and the law of trade secrets was recognized in Avco Corporation v. Precision Air Parts, Inc., 210 USPQ 894 (M.D. Ala. 1980) (Federal copyright statute preempts state law equivalent to copyright which includes trade secrets.)

150. The difference between the application of trade secret law and copyright in a particular case (which illustrate some reasons why a plaintiff may often prefer a copyright action to a trade secret action) indicates some of the disparities in treatment under the two approaches:

(i) Trade secret protection is not available where the defendant 'lawfully' acquires the information, e.g., by purchasing the plaintiff's product and 'reverse engineering', if necessary, or where the information has been published and so is no longer secret. Copyright applies whenever the plaintiff's "work" has been copied.

(ii) The liability of a third party who purchases a trade secret from one who has wrongfully appropriated it in good faith, for value and without notice of the wrongful appropriation is uncertain.

(iii) Trade secrets protect only specific confidential information and not ordinary skill and knowledge acquired on the job.

(iv) Under copyright the remedy of conversion, i.e., the plaintiff acquiring title to all infringing articles, is available. No equivalent remedy is available under trade secret law.

(v) In Canada, a copyright action would give the Federal Court jurisdiction over the matter, whereas a trade secret matter would be within the jurisdiction of the provincial courts. This later concern is legitimate one on the part of plaintiffs. A Federal Court action would appear to be necessary to give a plaintiff remedies that are national in scope in a single court action.

151. 17 USC s. 102(b) (1976). "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained illustrated, or embodied in such work."

152. House of Representatives Report, No. 1476, 94th Cong., 2d Sess. (1976) p. 56.

153. A further advantage of codification is that it will make clearer to the ordinary public upon reading the statute what is the nature of copyright protection.

154. U.K. Consultative Document, Supra note 87e, (1981), p. 6. The recommendation of the Consultative Document that protection be granted to "the general appearance of an article" should not be adopted in Canadian law. It was noted that the concept of "article" in the present U.K. law like the present Canadian law is somewhat obscure, see above after note 14, but if the intended meaning remains the same as in the existing law it will refer to, or at least include, basically what we have defined above as utilitarian articles, above at note 18. It is undesirable to extend any further the application of copyright to utilitarian articles than occurs under the present law.

It is particularly undesirable if the appearance of articles is to be protected "irrespective of artistic quality," see above at note 113. One of the stated advantages for the approach, i.e., that it avoids the difficulty of disguishing between aesthetic and other elements of an article is largely illusory under the approach suggested. The Document, as already noted in the text, further indicates that appearance is to be protected only so far as it is not dictated by function which will require distinguishing between the functional and other (largely aesthetic) elements in assessing whether there has been infringement.

The general appearance of a utilitarian article in itself would not appear to be a work which is protected by the present Copyright Act. The Copyright Act, s.2, "artistic work" states that an artistic work "includes" the listed types of specific works. That clearly suggests that there might be other types of artistic works not listed. One possibility, of course, is the general appearance of any utilitarian article, at least to the extent that it has "artistic character." However, the decision of Pape, J. in Cuisenaire v. Reed, [1963] V.R. 719, in interpreting the then Australian statute definition of "artistic work," which was identical to the present Canadian statute definition, rejected such a possibility and interpreted "includes" as the equivalent to "means." The judgment of Noel J. in Cuisenaire v. South West Imports Ltd., (1967) 54 C.P.R. (Ex. Ct.), affirmed in (1968) 57 C.P.R. 76 (S.C.C.) appears to approve of this approach to the meaning of "artistic work" in the Canadian statute. In addition, Noel, J. indicated that the phrases, "every original production in the literary, scientific or artistic domain, whatever may be the mode or form of its expression," and "plastic works...relative to science" contained in the definition of "every original literary, dramatic, musical and artistic work," do not extend the types or classes of protected works.

155. Rather than using the words "dictated by" in any statutory provision, however, words such as "attributable to, caused or prompted by" (the function the article has to perform) ought to be used. See supra Ch. 1., text at notes 77 to 81.

In addition, consideration ought to be given to expanding the provision proposed in the text to provide that copyright protection for features of appearance of any utilitarian article portrayed in any work protected by copyright could extend only so far as such features were not attributable to, caused or prompted by any method or principle of construction or manufacture of the article. See supra, Ch. 1., text at notes 82 and 83.

156. It should be noted that scholars of copyright would object that to the extent that there is an artistic character requirement, and in respect of the originality requirement, there would be no artistic character and no originality only if the alleged work were entirely dictated by function so that there was no scope for either requirement. Regardless, it is clear that the author must make an original contribution of an artistic character not dictated by function and that under the idea/expression doctrine should receive protection for the work only to the extent that the work is not dictated by function. Given the problems which have occurred in applying copyright protection to functional aspects of articles, however, such a provision should be considered for adoption even though it may do nothing more than reflect already established copyright principles.

157. In particular, such interpretations could begin with the observation that Parliament must have believed that there were no uncodified general principles that could exclude copyright from applying to protect operational aspects of protected works, or ideas, for why else enact the specific provision.

A variation on the proposal in the text would be to adopt a provision in the language suggested by the Ilsley Commission Report, supra note 30, for inclusion in the industrial design statute, i.e., the exclusion applies if the features are "wholly or partly dictated by function." See above, Ch. 1, at note 67. It is not entirely clear what difference this form of drafting would make. However, the exclusion as it implies an "all or nothing" approach to each feature of appearance (or the overall appearance if the U.K. Consultative Document approach were adopted), whereas the Consultative Document language suggests distinctions between functional and non-functional aspects being drawn within each feature.

158. Supra text at notes 8, and 140.

159. Supra note 155.

160. Supra Ch. 1, text at notes 59 to 64.

161. For example, a work could lack originality at least if it is "trivial" or because it is copied from an existing work or thing, or perhaps because its features were required by the function the work had to perform in use. Supra note 139.

162. U.K. Consultative Document, supra note 154, pp. 6-7.

163. The doctrine that the reproduction of an article from a drawing does not infringe unless the article itself can claim copyright has support in interpretations of copyright statutes without such a specific provision. See Nimmer on Copyright, (1980), s.2.18(H) (2). "The further question arises as to whether a copyright of an illustration of a toy will protect not only against reproduction of the illustration, but also against copying the illustration by reproducing the toy in three-dimensional form. The answer, here, must turn on the nature of the copyrightable elements contained in the copyrighted illustration. If the toy itself would not be eligible for copyright...then the only copyrightable elements contained in the copyrighted illustration are the original elements of perspective, angle, etc. which the artist employed in depicting the toy in two-dimensional illustrated form. One who reproduces the toy in three-dimensional form is by hypothesis copying from the illustration only the non-copyrightable elements (the structure and appearance of the toy itself) without copying the copyrightable elements (the manner of depicting the toy in two-dimensional form)."

The type of issue suggested above is alluded to in the comments of the court in Schauenburg Industries Ltd. v. Borowski, above note 8, in which the court noted, but did not need to decide, the issue of whether the reproduction of a drawing of a machine in the form of a machine constituted a reproduction of the "work," i.e., the drawing, under the Copyright Act, s.3(1). It could be argued that if the machine in the drawing itself did not possess sufficient elements of artistic character and originality to be a protected work (perhaps as a sculpture or work of artistic craftsmandhip), then reproduction of the drawing as such a machine could not constitute infringement as none of the original artistic character of the drawing (perspective, angle, etc.) was reproduced.

The limitations on the scope of application of the provision suggested in the text ought to be noted. First, a reproduction of the original artistic character of a drawing, plan or other work portraying a utilitarian article would still constitute infringement. For example, if the protected work was a photograph of a utilitarian article, a person who reproduced a substantial part of what made the original photograph an original work (camera angle, lighting, etc. - See Nimmer on Copyright, (1980), s. 208)E) (1) for comment on the difficult issue of originality of photographs) in another photograph or a drawing would infringe the copyright in the original photograph. Second, if the thing portrayed was itself capable of being protected under copyright, the reproduction of the article would be infringement. This will occur most clearly when the object portrayed is not a utilitarian object. If, for example, a sculptor commenced his works, not by sculpting directly but rather by doing a drawing of the sculpture he intended to produce, someone who reproduced the sculpture from the drawing would infringe the copyright in the drawing.

164. See above, text at note 77.

165. See text before note 58.

166. See text at, and note 92.

167. The effect is achieved through deleting s.10(1) of the Copyright Act 1956, supra note 8, and substantially amending ss. 10(2) and (3). Otherwise s.10 of that Act is unchanged.

168. The perceived problems may not have been real, or at least were substantially reduced, if Dorling v. Honnor Marine, supra note 77, did result in regular copyright being extended to all designs which were unregistrable under the Registered Designs Act 1949, supra note 15, Cornish, supra note 8, pp. 233-234.

Since the proposals would not permit a Dorling approach to apply, it could not be used as a response to the perceived difficulties.

169. See below, Ch. 3, text at notes (33) and (48).

170. See below, Ch. 3, text at notes (34ff).

171. Whiteford Committee Report, supra note 32, p. 51. It has already been noted above that the Committee termed the results of the Dorling v. Honnor Marine interpretation of ss. 19(2), (3) "bizarre"; see note 77, above.

172. This group would have changed the system to provide protection only against copying (rather than the "monopoly type" system now in place) and would have replaced the registration requirement with a deposit system. These features of design systems are discussed in this paper below in Ch. 7, and in Ch. 5.

173. Given the concern of this group with offering protection to the functional aspects of designs, presumably they might have at least proposed amendments to avoid the extension of copyright to functional designs that do not qualify for protection under the design law. See above, note 77.

174. "Automatic" refers to the fact that protection arises upon creation of the work without registration or deposit.

175. Whitford Committee Report, supra note 32, pp. 47-50.

176. See above, text at notes 7 and 8.

177. This was designated "Category A" by the Committee. "Category B" is referred to in the sentence in the text immediately following. Whitford Committee Report, supra note 32, p. 44. The position of this group is referred to in the Report at pp. 47, 50.

178. Johnston Committee Report, supra, note 25 p. 97.

179. Consultative Document, supra, note 105, p. 6.

180. See above, text at notes 154 to 162.

181. See text above at note 167 and after note 175.

There will also have to be provisions to define what is an industrial design in terms of the proposed "general appearance of an article" ... "applied industrially" (p. 6). What is an "article"? (presumably a functional article); what about the difficult borderline, e.g., greeting cards? (presumably Rule 26 would continue); what is "applied industrially"? (presumably the existing equivalent of the Canadian Rule 11 would continue).

182. Much of s.10 of the Copyright Act, 1956 as amended could be used under the proposed scheme. If the Registered Designs Act 1949 were repealed, s.10 of the Copyright Act 1956 would, of course, have to be amended to delete references to it but the substance of the approach, and the complexities, would remain. Additional language would be added to make clear that copyright in a drawing for an industrial design could not be used to defeat the intention to have shorter term for designs. (This is the thrust of para. 15, pp. 6-7, of the Consultative Document, in part.)

183. See above text at notes 169 and 170.

184. See above, after note 31. The effect of the proposals in this paper is, of course, that a work of art so applied will not continue to receive copyright protection when applied as an industrial design. The most significant implications for the protection of the artwork as a design are that protection will be available only upon registration and the term of protection will be considerably shorter than would be available under copyright.

185. The Johnston Committee Report, supra, note 25, noted that the Walt Disney organization, " ... objected strongly to the principle of section 10, as they did at the time when the Copyright Act 1956 was before Parliament." The report goes on to note that the Disney organization submitted that it had found that there was a strong demand for articles bearing representations of their popular cartoon characters and when they failed to supply that demand through licensing, widespread infringement occurred. It was claimed that the Disney organization was compelled to license such reproduction in order to control the quality of such reproductions so as to avoid prejudice to the popularity of the characters. (pp. 85-86). The Gregory Committee Report, supra note 12, p. 88, refers to the problems of the owners of cartoons under its proposal to replace law like the existing Canadian law under s. 46 with a system like that in the current U.K., s.10.

186. The Ilsley Commission Report on Copyright, supra note 53, p. 73, noted the argument of the Disney organization, "... that to suggest trimming down the term of copyright to which an artistic work is entitled because it becomes so popular as to be usable by reproduction in the applied or commercial field is similar to suggesting that musical works should receive a lesser term of protection when they are mechanized, i.e., when they are placed on gramophone records, ..."

187. Franki Committee Report, 1st Reference, supra note 31, p. 52.

188. Cornish, supra note 8, p. 241 notes that the Disney viewpoint was not accepted in any of the reports. It might be argued, however, that the Franki Committee recommendations represented a partial acceptance of the Disney position. See below text at note 200.

189. One of the problems that will emerge in the later discussion is that industrial designs are in fact not readily categorized into these or any other categories on which differential treatment under design and copyright law can be readily based.

190. This intuition is probably based, if it indeed exists, on the fact that the first category will clearly have copyright protection as artistic works and the proposed design law excludes the copyright protection for designs which would otherwise apply. The second category may simply seem, physically, more like the first.

191. These reasons are discussed above at notes 32 to 50.

192. See above, Ch. 1 note 66.

193. 17 USC 101 (1976).

194. General Revision of the Copyright Law, Report of House of Representatives, 94-1976, p. 55.

195. Ibid., "The Register concedes than an independent work of art in the historic and ordinary sense does not lose its character by incorporation in a useful article." Esquire v. Ringer, 194 USPQ (DDC 1976) at 31.

196. The concern with the extension of copyright to industrial design in the U.S. goes back at least to 1910 when the Copyright Office issued a regulation under the 1909 Act which denied protection to utilitarian works "even if artistically made or ornamented." Cited in Esquire v. Ringer 194 USPQ 30 at 31. The extent of copyright protection available for utilitarian works appears to have been particularly uncertain until the landmark case of Mazer v. Stein, 347 US 201 (1954) which indicated copyright subsisted in lamp bases in the form of human figures. The Copyright Office, "unhappy with the open-ended extension of copyright protection to all manner of useful articles suggested by Mazer" [Nimmer on Copyright, pp. 2-89 (1980)] enacted a regulation in the mid-1950's which was the precursor of the test set out in the present statute for the application of copyright to designs.

197. The present U.S. law tests of separate identity and independent existence of the design features go back at least to regulations promulgated by the Copyright Office in the mid-1950's. In assessing the experience under this regulation Professor Nimmer has said, "When may artistic features be said to be 'identified separately' and 'capable of existing separately as a work of art'? The cases applying this Regulation under the 1909 Act [under which the regulation of the mid-1950's was promulgated] offered no clear answer." Nimmer on Copyright, 2d Ed., pp. 2-89 (1980).

A particular difficulty stems from the determination of Congress that the test of separateness of design and utilitarian features apply to both physical and conceptual separation; see above, note 118. The latter seems to be regarded as having been referred to in order to include at least some non-representational, "contemporary" designs within copyright protection. The idea that copyright law ought not to discriminate among types of art or literature is common. See Esquire v. Ringer 194 USPQ 30 at 31 per Gessell, D.J., " ...the term 'art' is not confined to the traditional forms of fine arts... [The outdoor lighting fixtures devoid of ornamentation but of pleasing shape] here in dispute are clearly art." The appellate court in Esquire noted Justice Holmes famous promulgation of a "nondiscrimination principle" in Bliestein v. Donaldson Lithographing Co., 188 US 239, 251 (1903), but concluded that the Register's application of the regulation so as to refuse copyright to the particular design was not a result of "conscious bias against one form of art," but was rather an "inadvertent" result of persuing the goal of not granting copyright protection to certain types of industrial design. 199 USPQ 1 at 8. (DCCA 1978)

Given the widespread acceptance, and clear legitimacy, of a principle of non-discrimination among types of art in granting copyright protection, if a provision like that in the U.S. law were introduced into Canadian law, it is feared that the interpreters of the legislation would have an inclination to apply the law so that it offered protection as far as was possible for "non-representational or non-traditonal" designs. It is these designs, of course, which are most likely to be of the type that the law was designed to exclude from copyright protection because they were seen as the most problematic when protected by copyright. The inclination to offer protection to such designs might be all the stronger as many may view such designs as the most desirable and as reflecting the greatest contribution to society by their authors. See the Economic Council of Canada's condemnation of superficial ornamentation (clearly severable from the utilitarian features and therefore qualified for copyright) and praise of a "meritorious marriage of function and form," above, Ch. VI, p. 6.

Two recent U.S. cases illustrate the difficulty in applying the distinction in the U.S. law. Esquire v. Ringer (see above) applying the former copyright office regulation in which the Register refused registration, the trial court granted it and the appellate court refused it. Kesselstein-Cord v. Accessories by Pearl, Inc., 206 USPQ 439 (SDNY 1980), 208 USPQ 1 (2d Cir. 1980) applying the 1976 statute in which the Register granted registration, the trial judge refused it, and the appellate court in a 2 to 1 split decision granted registration.

198. See above, text at notes 33 to 51.

199. An apparent problem of the effect of the U.S. law is that it grants copyright protection to what many regard as the least desirable forms of industrial design and denies it to the more desirable forms. The forms denied protection appear to be those most likely to enhance consumer welfare. See above, Part I.

It should be noted that the present U.S. law developed when the U.S. copyright law did not feature several of the elements which we see as making Canadian copyright law an unsuitable form of protection for industrial designs. At the time of Mazer v. Stein the copyright law had a shorter term (28 years renewable for a further 28 years), required registration as a condition of protection, and required marking with notice of copyright as a condition of protection. The present U.S. copyright law substantially retains the last two elements. See Gabay, M., "The United States Copyright System and The Berne Convention" (1979) 26 Bull. of Cop. Soc. of USA 202.

200. The Franki Committee Report, 1st Reference, supra note 30, p. 58. However, the Committee also recommended copyright protection for some three-dimensional designs, i.e., those "peculiary liable to slavish copying by a moulding or casting process and which are also incapable of being protected under the Designs or Patents Act " (e.g., because they are not novel or inventive), p. 62.

201. Ibid., p. 58. Professor Cornish has commented that there may be as much a tradition of copying in some industries working with two dimensional designs as those working with three dimensional designs and that therefore this does not appear to be a reasonable basis for the distinction in treatment. Cornish, supra, note 8,p. 270.

202. Franki Committee Report, 1st Reference, supra, note 30, p. 58. It has been noted that some two-dimensional designs may be functional. See Kent, supra, Ch. 1, note 70, p. 66. Embossed, engraved or raised patterns would present problems of classification. What of tire treads or printed circuits?

203. The Franki Committee Report, 1st Reference, supra note 31, pp. 52-55.

204. See above, text at notes 33-51.

205. See notes 201 and 202, above.

206. See note 202, above.

207. The description of the approach in the text is not presented as a completely accurate summary of either the West German or Benelux law. However, the laws of those countries do suggest the general approach outlined here. It is our understanding that the Swedish law takes a somewhat similar approach. See Ljungman, Seve, "The Scandinavian Approach in Design Protection--Aims and Outcome--In Comparison with the New Benelux Legislation,"in Jehoram, ed., Design Protection, (1976), Sijthoff, Leyden, p. 117 at 118.

208. In Germany, "Copyright protection is granted only to shapes and configurations possessing an aesthetic quality to such a degree that the work can be deemed as artistic as contrasted to a mere aesthetically pleasing product." Katzenburger, Paul, "Protection of Industrial Designs in Germany," (1975) 6 IIC 304 at 312.

Article 21(2) of the Uniform Beneflux Designs Law provides that designs which lack "a marked artistic character" will not receive copyright protection. The Law is reproduced in (1974) Industrial property 177.

It appears that the requirement for a design to secure copyright protection in Swedish law is a requirement of a creativity and novelty that is significantly higher than that required under the Swedish designs law. Ljungman, op. cit., p. 122.

209. Katzenburger, op. cit., p. 312.

210. Whitford Committee Report, supra note 53, p. 34.

Under Belgain law in force prior to 1935 drawings or designs which showed an "artistic quality" could be protected under copyright in addition to design protection. "[A]n endless controversy arose about whether an artistic quality existed in the object which was to be protected." DeCaluwe, Aime, "Belgium and New Design Law," in Jehoram, ed., Design Protection, p. 129 at 130. Legislation was enacted in 1935 eliminating the test of artistic quality of copyright protection for designs. DeCaluwe speculates that Belgium's adoption of the Uniform Benelux Designs Law with its test of "marked artistic character" for designs to receive copyright protection will "bring back these old disputes and difficulties" (experienced under the pre-1935 Belgian law) See p. 136. However, De Caluwe notes the view of Poirier in 1935 that the courts had been able to interpret and apply the requirement of artistic quality under the pre-1935 law, see p. 137.

211. Uniform Benelux Designs Law, Art. 23(3). Simultaneous termination of copyright and design protection also occurs if the design registration is terminated before the end of the usual 15 year term, e.g., in cancellation proceedings for lack of novelty. The section provides that simultaneous termination will occur only if the design registration and the copyright are owned by the same persons. However, Articles 22 and 23 seem designed to prevent ownership of the design registration and the copyright from falling into different hands.

212. Jehoram, C., "Specific Design Protection and Copyright in Benelux and Dutch Law," in Jehoram, Design Protection, p. 21 at p. 26. Jehoram argues that these provisions are contrary to the requirements of the Berne Convention which prohibits formalities as prerequisites to the existence or enjoyment of copyright (p. 29). Jehoram also notes that the Dutch copyright law was amended to include protection for "industrial designs" at the time of the adoption of the Benelux law by the Netherlands so that the copyright law appears to conflict with the Benelux design statute which limits copyright protection to designs of "marked artistic character." Jehoram suggests a reconciliation of the copyright and designs law through an interpretation of the requirement of marked artistic character as meaning simply originality in the usual copyright sense. If this interpretation were adopted, Dutch copyright law might extend completely to designs, somewhat like the French or New Zealand law.

CHAPTER 3

ORIGINALITY, NOVELTY AND INVENTIVE STEP

1. Introduction

Given that the economic purpose of the industrial design system is to stimulate the making of innovations in product design, criteria are needed in the design legislation to distinguish design innovations from existing designs. In addition, it may be said that the creator of a design has no moral entitlement to any form of intellectual property right unless his design reflects a contribution to the prevailing design art by at least some minimal criterion of design innovation.

The issue addressed in this section of this paper is what kind of criterion of innovation ought to appear in the revised Canadian industrial design legislation. Traditionally in intellectual property law, analyses of the criteria of innovation have identified three categories of criteria, ranging from a higher to a lower standard of innovation: inventive step, novelty and orginality.[1]

2. Inventive Step

The requirement of an inventive step, which is found in Canadian and foreign patent laws[2] as well as the U.S. design patent statute,[3] would require that in order to qualify for protection a design would have to be not merely new in relation to prior designs, but that it reflect an inventive advance over such prior art. The argument in favour of such a requirement is that it is necessary to identify those design innovations which are likely to make a significant contribution to consumer welfare and so justify the costs to the public and competitors of design monopolies.[4]

The argument against the adoption of an inventive step requirement, which is convincing, is that it will not work in practice. The requirement of an inventive step has proved difficult enough to administer in relation to utility (i.e., non-design) patents, where it is applied as a measure to technological advances. The U.S. experience indicates that the attempt to apply the measure to the concept of an "aesthetic advance" has proved exceedingly difficult, if not impossible.[5] The effect has been that it is not only very difficult to obtain a design patent in the U.S., but it is difficult to predict in what instances, and on what particular basis, a design patent will be granted.[6] Perhaps even more important, once granted design patents run a high and unpredictable risk of being invalidated when challenged in court actions on the basis of lack of inventive step.[7] These difficulties and uncertainties negate the anticipated advantages in applying the more stringent inventive step requirement.[8]

Consequently, it is recommended that the Canadian industrial design statute not feature a requirement of an inventive step as a prerequisite to industrial design protection.

3. Novelty

(a) Introduction, Present Canadian Law

Rather than requiring that a design be inventively different from previous designs to qualify for protection, the revised law could provide that the design need only be new relative to the prior art. While the present Canadian legislation is somewhat obscure, it is generally seen as requiring novelty as a condition for protection of a design under the statute.[9]

(b) An Appropriate Standard of Novelty

Since the statutory provisons in the Canadian law are so unsatisfactory in defining the standard of novelty, first an appropriate statutory standard of novelty will be outlined briefly before the appropriateness of such a standard as a part of a revised industrial design statute is assessed.

Since novelty is a relative concept first the reference point must be established, relative to which designs must the applied-for design be new. The Ilsley Commission[10] was correct that the appropriate reference point is those designs which have earlier been registered under the Canadian statute or published anywhere in the world.[11] The second element to be established is the point in time at which novelty ought to be tested. The choices are the date of the origination of the design or the date of the filing of the application for protection under the Canadian statute.[12] If a novelty standard were to appear in a revised Canadian industrial design act, it should provide for a reference date for testing novelty as the date of the application for registration.[13] A further factor to be determined is the effect of disclosures by the applicant himself prior to his application, *i.e.*, whether the law should provide for a so-called "grace period."[14] An appropriate novelty standard would provide for no grace period and would bar registration whether publication of the design prior to application was by the applicant himself or by another.[15] Finally, the legislation would have to provide what was the appropriate degree of novelty over the prior art so defined. It is suggested that an appropriate standard for the degree of novelty would be codification of the present standard as applied by the courts and the Patent Appeal Board which requires a "substantial" difference between the prior art and the applied-for design to quality the latter for registration.[16]

(c) Recommendation Concerning Novelty

There are several arguments that could be put in support of retaining a requirement of novelty, as opposed to mere originality, as a prerequisite to obtaining industrial design protection for a particular design.

The most important such argument is that the lack of a novelty requirement and reliance on a requirement of mere originality will result in the registration of too many designs, many of which will be no different or only trivially different from the prior design art. It is feared that infringement actions, either threatened or actual, based on such design registrations would be used to harrass competitors and to suppress improperly competition.[17] A response to this fear is the observation that when the criterion of obtaining industrial design protection is limited to originality and not novelty, the available scope of protection would be limited to protection against copying only, and would not extend to the independent, non-copying production of a design the same as the plaintiff's by the defendant.

It has been observed that the latter response may be in itself an unsatisfactory answer to the problem as stated. First, given the needs of, and the desirability of a vigorous competitive system the suggestion that businesses ought to treat copying as prima facie wrong and that the appropriate way to avoid accusations of infringement is to eschew all copying of competitors' or others' products is not acceptable. Earlier in this paper it was noted that copying was normal, appropriate and essential element of effective competition.[18] Second, as the Johnston Committee and others have observed that when the scope of marketable designs for an article is limited by functional requirements and the market demands concerning an acceptable range of appearances for articles, manufacturers may frequently, without copying these other designs, develop designs which are very similar to the prior art. Such similarity can lead to accusations of infringement.[19]

A further concern with abandoning a novelty requirement for industrial design registration focuses on the practical problems in dealing with a large volume of registrations. It has been suggested that it will become very difficult to do useful seaches of the register in order to discover for what designs protection is claimed in order to establish what one can safely copy without infringing, particularly in the light of the difficulties that have been encountered in the satisfactory classifying and indexing of industrial designs.[20]

A final argument against the replacement of a novelty standard with an originality standard is that it would result in a form of protection that had less commercial value to the registrant and would thus detract from the goal of the design system of stimulating innovation in design. The perceived reduction in commercial value would derive from the fact that there would be no governmental certification that a registered design was new and no protection against non-copying duplication by others.[21]

Notwithstanding the above arguments for the maintenance of the novelty requirement there are good reasons why it should be eliminated and replaced with a requirement of originality only. One difficulty with a novelty requirement is that it may render it difficult to protect certain types of designs as they may be regarded as not novel. For example, it has been suggested that the designs for some articles which are modeled closely on other real things, e.g., the design of lampbase in the shape of a human or animal figure, may not be registrable as they lack novelty. It would appear that the reason for this finding of lack of novelty is that articles of the particular types have earlier so frequently been closely modeled on such other real things that there is no scope for novelty, at least if the design follows the real article closely.[22] The Johnston Committee noted that processes have been developed which involve the exact copying of three dimensional articles very inexpensively compared with the "often high" cost of designing the original articles and manufacturing the original moulds for producing the articles.[23] The Johnston Committee was correct in stating that the designs for such articles are entitled to some type of protection against this type of exact duplication by moulding which permits the copyist to compete directly with the originator of the design by using the design originator's own substantial investment in the original design and its manufacture.[24]

A further difficulty with a novelty requirement is that it can contribute to delays in securing registration and therefore protection. Of course, the more stringent the statutory test of novelty and the more carefully it is administered, (and perhaps therefore the more likely to achieve its intended purposes), the greater are likely to be the delays in securing registration. In the U.K. it had been claimed that the delay in obtaining registration had meant that competitors had been able to copy designs and to flood the market with copies before the proprietors of the designs were able to secure design registrations.[25] While it is unclear whether problems exist to a similar extent in Canada, it is true that the longer the period between application and registration of the design the more likely it will be that such problems will occur.[26]

The final, and most important problem with the novelty requirement is that it is very difficult to administer in practice. The difficulty is based on two main considerations. First, the prior art against which the applied-for design is to be tested must be discovered. Above it was indicated that the appropriate scope for a novelty criterion is that the applied-for design be novel in relation to any design which has been published earlier anywhere in the world. Unlike the case of patents, the design registrations of foreign countries have not proved a fruitful source of the prior design art as some countries have not had, and some continue not to have design registration systems,[27] some countries which do have such systems do not make the registers publicly available[25] and effective classification and indexing systems for designs have proved particularly difficult to devise where the protected matter is the aesthetic or mere appearance features of articles. In theory every publication of a relevant design anywhere in the world prior to the application in question ought to be considered. Given that every utilitarian article must have an appearance, and therefore bear an industrial design except to the extent the appearance is dictated by function, the number of published designs is enormous. The difficulty of the search of the prior art is compounded by the fact that not only must earlier designs for the particular type of article to which the applied-for design is applied be searched, but also earlier designs for other types of articles as well to ensure that the applied-for design does not represent an analogous application of such an earlier design.[28]

The second main difficulty with the requirement of novelty is that the standard itself is difficult to formulate and apply. Earlier reference was made to the conceptual difficulties encountered in applying the concept of inventive step to designs.[29] While the difficulties encountered in applying novelty are not as serious as those found in applying the inventive step requirement to designs, the difficulties are very real.[30]

In the light of the above problems with the novelty requirement there must be an assessment of whether the continuance of the requirement is likely to achieve the beneficial results that were suggested in the arguments noted above. First, it is observed that the difficulties in finding the relevant prior art and in applying the concept of novelty may give only an illusory increase in the likelihood of the validity of any design registration and in its commercial value through governmental certification of novelty.[31] These difficulties greatly increase the likelihood that relevant prior design art that was not discovered during the prosecution of the application before the office will be found and introduced in court actions attacking the validity of registrations, and also that the court might formulate and apply the test of novelty somewhat differently than occurred before the Industrial Design Office.

The Johnston Committee observed that in the U.K. experience to the time of its writing (1962) that, " ... registered designs usually seem to be upheld in the Courts ...".[32] While there is some validity in this observation, it reflects in part the desire of the courts not to hold invalid too readily design registrations on the basis of a test as difficult to formulate and apply as the test of novelty for designs. Further, there is an apparaent tendency on the part of the courts to impose a very modest requirement of novelty and so be able to hold a particular design registration valid, but then to rule that very modest differences between the registered design and an alleged infringing design will prevent the latter from being infringing.[33] In part such an approach may reflect an unwillingness on the part of the courts to see significant extensions of monopoly rights in designs founded on the obscure concept of novelty in designs. Such an approach also greatly weakens the validity of the argument that the novelty requirement enhances the commercial value of design registrations.

The difficulties in formulating and applying the novelty concept, particularly when they result in the formulation of a very modest novelty requirement, also greatly weaken the utility of that requirement as a device to limit the number of design registrations granted, with a view to excluding those only slightly or trivially different from prior designs.[34]

Consequently, it is recommended that there be no requirement of novelty as a condition for a valid industrial design registration in a revised Canadian statute.[35]

4. The Requirement of Originality

It is proposed that a requirement for a validly registrable industrial design be that the design is original, generally in the sense that the term has been used in copyright law. In copyright originality is usually described as involving two elements: that the work not be copied from an earlier work, and that the work reflect some minimum contribution of skill and effort on the part of its author.[36] Since we propose that industrial design protection be granted solely for the features of appearance of a utilitarian article, excluding any functional or operational elements, the originality required must be manifested in such features.

It has been argued that the requirement of originality would work to exclude protection for "trivial or routine variations"[37] on existing designs or those substantially dictated by the functional aspects of the articles to which they are applied.[38] The reasoning behind these assertions is that such designs are either substantially copies from earlier designs or they do not reflect the contribution of even the minimum skill and effort needed to qualify the works as original. Obviously, the exclusion of such designs from protection is highly desireable, indeed essential, to limit the potential problems of harrassment of competitors through excessive claims for design protection referred to above.[39]

In reference to the existing principles of originality in the U.S. copyright law there have been similar, and perhaps even more emphatic, assertions that the requirement of originality would exclude copyright protection for industrial designs from applying to minor variations on existing standard designs as well as features dictated by function.[40] However under the U.S. copyright law,[41] as under Canadian[42] and British[43] law, it is stated that a very modest contribution on the part of the author is sufficient to meet the originality requirement. Consequently, there may be concern that some courts may so interpret the requirement of originality that it ceases to be effective to exclude the kind of common-place variations of well-established designs and features dictated by function referred to above.

It may have been that kind of concern which led the drafters of the proposed, but not enacted Design Protection Act of 1980[44] in the U.S. to carefully define the concept of originality. The definition excludes from protection as unoriginal not only designs which are copies from another source but also designs which are "staple or commonplace" or are different from the staple or commonplace only in "insignificant details" or "variants commonly used in the relevant trades."[45] The latter part of the above definition of "original" reflects the established requirement that original works involve some minimum skill and labour on the part of the author.[46]

Given the uncertainties which can arise from the judicial pronouncements that only minimal originality is required to qualify a work for copyright protection,[47] it would be wise to define further the concept of originality in the industrial design statute in a manner similar to that found in the proposed U.S. legislation. In addition, as in the proposed U.S. legislation,[48] it is recommended that there be a statutory direction to exclude from registration applications which on their face do not appear to qualify as original as defined in the proposed legislation. By such a recommendation it is not intended that an extensive search be conducted of the prior art as is the case under the present legislation. Rather, it is intended that the Industrial Design Office have the power to refuse registration to designs that are patently unqualified so as to avoid cluttering the register with such designs. Since there would be no thorough assessment of the originality of any design by the Industrial Design Office, it would be possible for unoriginal designs to be registered. The validity of such design registrations would be challengeable by defendants in infringement actions and in actions brought by interested persons to cancel such registrations.[49]

The question may arise as to whether the scheme proposed above in relation to the requirement of originality is not substantially the same at the present requirement of novelty and whether it would not be subject to the objections made to that requirement above,[50] including that of causing excessive delays in securing registration. This is not the case, although it is clear that the distinction between the present novelty requirement and the originality requirement outlined above is a question of degree in some respects. For example, there is less scope for the exclusion of designs which are faithful reproductions of things from nature under the originality approach proposed than under a novelty requirement. In addition since there will be no extensive search of the prior art and examination for novelty, there should be a saving in the processing time for registration even allowing for the power of the office to refuse registrations that on their face are not original. Finally, since under the proposed originality requirement it is proposed to exclude that which is only insignificantly different from that which is staple, commonplace or ordinary, the relevant prior art will be somewhat easier to discover than in the case of the novelty requirement. In addition, the more limited concept of originality (in terms of difference from the prior art) ought to be somewhat easier to interpret and apply than a more stringent requirement of novelty.

Below, in other sections of this paper further recommendations are made related to the originality requirement which are essential to its effective functioning. These recommendations include the requirement of a statement of claimed originality included within the publicly available registration documents which would identify the features of the design in respect of which the proprietor claimed originality.[51] In addition the statutory provisions for scope of protection should make it clear that there can be infringement only in respect of the original features of the design.[52] Further, registration under the proposed revised industrial designs statute in the light of the limited examination and limited power of the Industrial Design Office to refuse registration for lack of originality should not give rise to a presumption of originality.[53]

5. Multiple Embodiments of Designs and Variations on Already Registered Designs

Under the Industrial Design Act, the Industrial Design Office views the requirement that an applied-for design registration be novel in relation to previously registered designs, as precluding the later registration of variants of an earlier registered design by the proprietor of that design.[54]

A common instance in which this type of later design application may be received is when the applicant presents for registration a design which is adapted from one of its earlier registered designs for application to articles other than those in the original registration. It should be noted that while the Office will not accept applications to register variants after the original design has been registered, it will permit additional representations of a single design to be added to an application at any time prior to registration.

The applicant generally wishes to add such multiple embodiments to the design registration to ensure that all the designs it intends to use in a "family" of designs are clearly protected. Where a design is merely a variant of an already registered design registration of such a variant is not necessary to protect the variant as the scope of protection for a registered design extends to any mere trade variants of that design.[55] However, registrants may prefer the greater certainty of protection which they may feel is inherent in having the particular design variants in which they are most interested actually registered. There may also be some advantage to the public in having such variants registered in that it gives notice of those design variants which the proprietor claims and may be prepared to take legal action to protect.

The risks to the public in permitting the registration of multiple embodiments is that the term of protection for the original design may be unduly extended. If a variant is permitted to be registered after the registration of the original design, and that variant design registration receives a full term of protection from the date of its registration, the practical effect is to extend the term of protection for the original registration. The U.K. Registered Designs Act 1949 permits the registration of variants of a design after the registration of the latter, but limits the period of protection for the variants so that it will terminate on the same date as protection for the original design,[56] in order to avoid the problem of extending the period of protection.

The Johnston Committee, which had proposed the introduction of a design-copyright system with originality (and not novelty) as a criterion of protection, analyzed the problem of the registration of design variants under such a system.[57] The Johnston Committee concluded that when an applied-for design variant featured sufficient originality through the skill and labour[58] necessary to create the variant, such design variant ought to be registrable in its own right an enjoy a full period of protection from its date of registration. However, the Committee saw a problem with design variants of an earlier registered design which did not feature sufficient originality in the modification or adaptation of the design to make them so registrable. While such variants would not have sufficient originality in the modification of the original design to make them original, the Committee believed that the variants would in law partake of the originality of the original design and so themselves be original and registrable. If that were so the registration of such variants during the period of registration of the original design would have the effect of extending the term of protection for the original design until the term of the last of such registered variants expired.

The Johnston Committee did not recommend dealing with the above problem of extending the term of design protection through the registration of design variants by the mechanisms in the Registered Design Act 1949 of making such variants registrable but making the period of registration co-terminal with the original registration. It concluded that it could not provide for such a solution without requiring that applications for registration be examined by the design office administrators, something that it was determined to avoid.

It has been recommended above that there be a minimal examination in the industrial design scheme proposed here in the context of the Industrial Design Office being able to reject applications on the basis of prima facie unoriginality, and below it is recommended further examination be required for the purpose of rejecting those applications which are for designs dictated by function.[59] Consequently, under the designs scheme proposed here the necessity of some examination is not sufficient reason to reject the approach to the registration of design variants taken in the present U.K. designs legislation.

It is proposed that the revised legislation provide that a design shall be deemed not to be original if it is the same as a design by the same author which has been registered earlier, or which differs from such design only in modifications not sufficient to alter the character or affect the identity of such ealier design. The revised legislation ought, however, also to provide that notwithstanding the deemed unoriginality, variants of already registered designs may be registered provided that such variants do not alter the character or substantially affect the identity of the original design, but the term of protection of such registered design variants shall not extend beyond the period of protection of the original registered design. It is further proposed that the exception permitting registration should not apply unless the applicant expressly claims the benefit of the exception at the time of application. This will place the burden on the applicant of identifying such design variants and of alerting the Industrial Design Office to the need for examination of such applications and for their registration, if so qualified, as design variants.[60]

6. Summary of Recommendations

1. There should be no requirement of an inventive step to secure an industrial design registration.

2. There should be no requirement of novelty to secure and industrial design registration.

3. An industrial design should be required to be original to be validly registered.

4. "Original" should be defined in the statute as follows: A design is original if,

    (a) it is the independant work of an author who did not copy it from another source,

(b) it is not staple or commonplace or different therefrom only in insignificant details or variants commonly used in the relevant trades.

5. The industrial Design office should be directed to refuse registration to a design that is on its face not original. Otherwise there should be no search or examination by the Office for originality.

6. The present practice of permitting multiple representations of industrial designs to be included at any time prior to registration ought to be continued. In addition the statute should provide for the registration of more variants of an already registered design during the period of the registration of that design. Such variants should be registrable only if they reflect modifications not sufficient to alter the character or substantially to affect the identity of the original design. The period of protection for such registered variants shall not extend beyond the termination of the registration of the original design.

7. Footnotes to Chapter 3

1. "Inventive step" refers to a requirement that the design reflect an inventive advance over the relevant prior design art, i.e., one that would not be obvious to one skilled in that art. "Novelty" refers to a requirement that the design be merely new in relation to the prior art and not inventively so. "Originality" refers to a requirement that the design be the product of the exercise of some minimum skill an labour by its author and that it not be substantially copied from another source, without any requirement that the design be either new or inventive.

2. Above, Ch. 1, p.2.

3. 35 U.S.C. 171 (1970) indicates that design patents are subject to the legislative provisions for patents of invention unless expressly excepted. 35 U.S.C. 103 (1970) precludes the obtaining of a patent if the differences between the applied-for subject matter and the prior art, "...would have been obvious at the time the invention was made to a person having ordinary skill in the art of which said subject matter pertains."

4. The Economic Council of Canada, Report an Intellectual and Industrial Property (1971) ("Economic Council Report") may have been arguing for the adoption of such a standard when it recommended that design registration be limited to those designs that were, "...truly 'new and innovative'", p. 121.

Interviews with some Canadian designers produced suggestions that Canadian law be changed to adopt the inventive step requirement featured in the U.S. design patent law. Such designers suggested that a U.S. design patent, based on this rigorous test for protection, had more value in the commercial exploitation of designs. It was suggested that it was easier to interest licensees, distributors, sources of financing and others necessary to the exploitation of a design where the design had received a design patent since the certification by the U.S. Patent Office that the design was not merely new, but inventive, was an indication of a greater likelihood of commercial success.

5. "Protection for the Artistic Aspects of Articles of Utility", (1959) 72 Harv. L. Rev. 1520 at 1522, "Indeed in most instances the concept of an 'advance in aesthetic merit' may be inherently meaningless." Note that since all operational elements are to be excluded from the concept of

industrial design for statutory protection (see above, Ch. 1), the inventive step requirement in designs has to be applied exclusively to the aesthetic or appearance elements.

Mues, G.R., "Dual Copyright and Design Patent Protection: Works of Art and Ornamental Designs", (1975) 49 St. John's L. Rev. 543 at 574.

"And when they insist that the degree of innovation must rise to invention they borrow a concept from an alien field which is quite irrelevant." Hamilton, Walton, in Appendix C, Royal Commission on Patents Copyright, Trade Marks and Industrial Designs Report an Industrial Designs (1958) p. 62, ("Ilsley Commission Report").

6. "...to obtain a design patent is exceedingly difficult ...", G.B. Lewis Company v. Gould Products, Inc., 436 F. 2d 1176 (2d Cir. 1971) at 1178 per Friendly, J., cited in J.G. Furniture Company Inc. v. Litton Systems Inc. 194 U.S.P.Q. 483 (S.D.N.Y. 1977) at 485. See also Mues, G.R., supra note 5, pp. 574-75.

7. Again we quote Hamilton, supra, note 4, at p. 63, "...if the standards are so intangible and so uncertain that judgment becomes speculative, an ordeal of chance is substituted for the process of law".

See "Protection for the Artistic Aspects...", supra, note 5, at 1522.

"Patents - Copyrights - Designs For Articles May be Protected Under Both Design Patents and Copyrights Simultaneously" (1975) 21 Wayne L. Rev. 1239 at 1242 note 31.

8. See above, note 3.

9. In the Industrial Design Act, RSC, 1970, C. 1-8, there are four different, but relevant sections to the issue of the test of novelty. In s.4 it is required that the proprietor of the design declare on application that, "...the design was not in use to his knowledge by any other person than himself at the time of his adoption thereof". This requirement could be interpreted as a subjective (to the proprietor) test of novelty. Godinsky, "The Industrial Design Act - A Hundred Years After," P.T.I.C. Bulletin, April 1979, p. 137 at 139-140. In s.5 the Minister is required to examine the register to see whether the design being applied for, "...resembles any other design already registered" and in s.6 the Minister is directed to register the design, "...if he finds that it is not indentical with or does not so

closely resemble any other design already registered as to be confounded therewith...". These other two sections suggest a novelty criterion in which novelty is tested only against those designs registered under the Act. Finally, s.7(3) of the Act indicates that the certificate of registration shall, in the absence of proof to the contrary, be sufficient evidence of the "originality" of the registered design. Thus it is only implicitly through s.7(3) that "originality", which is not defined in the Act, is a requirement of a valid registration under the present statue.

Notwithstanding the confusion arising from the statute the Canadian courts, Clatworthy v. Dale Display, [1929] S.C.R. 429; Carr Harris v. Reliance (1969), 58 C.P.R. 62 (Ex. Ct.) aff. (1969) 65 CPR 158n (SCC), and the Patent Appeal Board and Industrial Design Office [Industrial Design Office, Industrial Design Policy Guidelines, April, 1978, s.6.1; Re Application of A.P. Domestrup, C.P.O.R., Nov. 7, 1978, p. xviii] have applied the standard of originality required under the British legislation. Note, however, that this reference to "originality" is in fact a reference to a requirement of novelty and does not mean the same thing as "originality" when used in reference to the copyright law. See Simons v. Mathieson and Co. Ltd., (1911) 28 R.P.C. 486 at 491 (C.A.).

10. Ilsley Commission Report, supra note 5 pp. 20-21.

11. It has been suggested that the requirement in the present Industrial Design Act, RSC, 1970 c. 1-8, s.4 that the proprietor declare that the design was, "...not in use to his knowledge by any other person than himself..." suggests a "worldwide" test of novelty, rather than a novel to Canada only test.

The present U.K., Australian, New Zealand, and Benelux statutes all provide for a "local" standard of novelty, i.e., the applied-for design is tested only against designs earlier known in the jurisdiction for which protection is granted by the statute. The recent uniform Nordic law on designs provides for a "worldwide" standard of novelty [Ljungman, S., "The New Nordic Design Legislation Under Comparative Aspects," (1973) 4 I.T.C. 336 at 342.] while the U.S. design patent law tests applied-for designs against prior patenting or description in a printed publication anywhere in the world [Deller's Walker on Patents, 2d, Vol. 2, pp. 746-747.]

It may be objected that a "worldwide" standard of novelty is inappropriate because it reduces the incentive to introduce new designs into Canada, and that it reduces the value of design registrations by subjecting them to attack on the ground of lack of novelty based on the prior existence of some possibly obscure (from a Canadian perspective) foreign design. Nevertheless, a worldwide standard of novelty would be the only appropriate standard for the Canadian law. Modern communications, travel and international trade have tended to make artistic and technical developments in other countries readily and widely accessible in Canada, irrespective of the provisions of our industrial design law. It seems particularly inappropriate to permit the securing of industrial design protection in Canada for designs which may not be protected in foreign jurisdictions, simply on the basis that they have not yet been published in Canada. In such circumstances the likely results of granting design protection in Canada would be to give some foreign designer a monopoly on importation of the design into Canada, and to inhibit the development of domestic production of the design by others, some of which might otherwise have been exported to the markets in which such designs did not have protection. It should be noted that lack of protection for a design in other countries is a reasonably likely occurence in many instances as most countries with design laws have various rules for disqualifying designs for protection, e.g. local if not worldwide novelty and some countries have no design laws at all.

12. The former could be called the "first-to-design" approach while the latter may be referred to as "first-to-file".

13. The advantage of such a first-to-file approach over a first-to-design approach is that it avoids the necessity of providing for costly and time-consuming procedures for resolving the question of who is the first designer in cases of a dispute between applicants for the same design. The same recommendation was made by the Economic Council Report, supra note 2, p. 123, and the Ilsley Commission, Report, supra, note 5, p. 20 which recommended the adoption of the U.K. statute first-to-file approach, as mofified by a worldwide novelty requirement.

A first-to-file approach also provides an incentive for the early disclosure of new designs either by publication (so as to preclude a later designer from applying for registration) or by application and registration.

Any provisions as to the date for testing novelty and establishing priority of entitlement to register a design would have to be made consistent with Canada's obligations under the *Paris Convention, (Rome, 1928*) reproduced in UNESCO, *Copyright Laws and Treaties of the World* (1978), Art. 4. Where Paris Convention priority is acquired by the filing of a design application in another Union country, the right of such applicant to secure a design registration in Canada cannot be precluded on the basis of a publication, application or registration within the priority period. *Industrial Design Act*, *supra* note 9, s. 29. Convention priority and other Convention obligations are discussed below Ch. 14.

14. Under the present statute publications by the applicant (or by other persons) of the design within one year before the date of registration of the design do not bar registration, *Industrial Design Act*, *supra*, note 9, s. 14(1). Enormous difficulties have arisen for applicants and the Industrial Design Office in coping with this grace period which is measured to the date of registration rather than to the date of application. Special procedures have been necessitated to speed the processing of applications to registration to prevent their being barred by prior publication. *Industrial Design Policy Guidelines*, April, 1978, s.3.2. *Commissioner's Decision (Industrial Designs)*, C.P.O.R., Dec. 24, 1974, p. viii.

15. The issue of a possible grace period is considered below, Ch. 4. text at note (11). Any grace period that was provided for, of course, should be measured to the date of application and not to the date of registration as is provided for in the current statute.

16. See cases cited in note 9, above. Despite the approval of the "substantial" novelty test, the courts have also approved the view that, "...the standard of originality in design is not a high one." *Carr-Harris v. Reliance* (1969), 58. C.P.R. 62 at 80. Such possibly contradictory statements reflect the inherent difficulties in quantifying any such standard (see similar difficulties in relation to the quantification of the standard of inventiveness in patent law), and, as indicated below, text at notes 27 to 35 particular difficulties in framing a test of the novelty of aesthetic features of designs.

If a novelty test were adopted, it is suggested, as does the *Ilsley Commission, Report*, *supra* note 5, p. 20, that the current U.K. designs legislation provides a useful guide to drafting such a standard. Since the Canadian courts have looked to the U.K. law as a guide to establishing the requirement under the Canadian law, using the U.K. act as a model would tend to continue the standards currently being applied. While the articulation of comprehensible novelty standards on the British statute general model might have some impact in raising the standards of novelty being applied by the Industrial Design Office and the courts (and given the modest standards that now generally appear to be applied such a raising of standards might be appropriate), given the necessarily subjective nature of such standards as applied to the appearance features of design, there is not much scope for alterations in the standard of novelty being applied through the manipulation of the statutory language setting that standard.

If the U.K. statutory language were considered for adoption, special attention should be paid to the deficiencies noted by Board of Trade, Patents and Designs Acts, Final Report of the Departmental Committee, (1947), U.K. Cmd. 7206) ("Swan Committee Report"), pp. 57-58; Board of Trade, Report of the Departmental Committee on Industrial Designs (1962, U.K. Cmnd. 1808) ("Johnston Committee Report"), p. 46; and Designs Law Review Committee, Report on the Law Relating to Designs, 1st Term of Reference (Govt. of Australia, 1973) ("Franki Committee Report"), pp. 13-14.

17. Johnston Committee Report, supra note 16, p. 27. Durham Industries v. Tomy Corporation, 208 U.S.P.Q. 10 (2d Cir. 1980) at p. 15.

18. Above, Ch. 2, after note 48. This question is dealt with again below, and there consideration is given to the scope of copying that ought be excluded.

19. Johnston Committee Report, supra note 16, p. 27. The troubling nature of such accusations is made more apparent when it is observed that in copyright actions there is rarely direct evidence of copying. Consequently, the courts have developed the doctrine that proof of access by the defendant to the plaintiff's work (or perhaps more accurately, the proof of the possibility of access by the defendant, e.g., simply by a showing that the plaintiff's work has been published), plus proof of substantial similarity between the defendant's and plaintiff's work can support a finding that infringement has occurred. See Durham v. Tomy, above, note 17, p. 15. It should also be recalled that it may be possible to establish infringement by "subconscious copying" where the court is satisfied that although no deliberate copying of the plaintiff's work took place, the defendant "subconsciously" copied the work in his memory. See Copinger and Skone-James on Copyright, (1980), 12th Ed., para. 464.

20. See below at note 27.

21. These arguments are similar to those noted above in relation to the desirability of a requirement of inventive step in note 3.

22. *Johnston Committee Report*, *supra* note 16, pp. 15-17. The Committee questioned whether the then U.K. Patent Office practice of rejecting such designs on the ground of lack of novelty was consistent with the view stated in *Deans Rag Book Co. v. Pomerantz* (1930), 47 RPC 485. That case suggested that novelty could reside in the adaptation of a "well known" subject "from a source common to mankind" to a particular class of article, *e.g.*, a toy. [The design in question involved the application of the Mickey Mouse cartoon character to a doll. The court found that the plaintiff's design was novel and validly registered, but not infringed by the defendant's mouse doll noting, "...the better known the subject of the design is, the narrower the scope of protection." The court did not have to address the question of whether the defendant's doll itself would have been registrable.]

In *Durham Industries v. Tomy* 208 USPQ 10 (2d Cir. 1980) it was decided that "small, plastic, wind-up toys" in the form of "instantly recognizable" Disney characters including Mickey Mouse lacked even sufficient originality to qualify for copyright protection. The court appears to have treated the plaintiff's toys as a form of Disney character that had not existed before, but noted that the figures had been frequently reproduced as "dolls" and in "a variety of other media." The case approved of an earlier decision's, "...explicit rejection... that ... originality ...can be satisfied by the mere reproduction of a work of art in a different medium, or by the demonstration of some 'physical' as opposed to 'artistic' skill." [p. 15].

There is a defence of the U.K. Patent Office practice in refusing such designs as not novel in (1962) 81 C.I.P.A. B-8ff. where it is suggested that design monopoly protection is inappropriate for designs which closely replicate nature and that the only protection that ought to be available is protection against copying.

See *Renwal Manufacturing Company Inc. v. Reliable Toy Company Limited*, (1949) 9 C.P.R. 67 (Ex. Ct.) where the industrial design registrations of plastic doll house furniture were invalidated for lack of novelty because, (i) they were merely miniatures of the designs for common household articles, and (ii) they were merely "trade variations" of doll house furniture that had been made earlier in other materials by others, which in turn had been modelled on real household articles.

23. Johnston Committee Report, supra note 16 pp. 16-17. The Franki Committee Report, supra note 16, p. 62 recommended that there be amendments to the law to give protection against the "slavish copying" by moulding processes of articles such as boat hulls. The Committee believed that boat hulls might be largely unregistrable under the designs legislation because there would generally be a lack of readily perceivable differences among hulls to qualify them as being of a novel appearance. The Committee recommended excluding articles particularly liable to slavish copying by moulding or casting from design protection by regulation which would have the effect under the Australian equivalent of s.46 of the Canadian Copyright Act, RSC, 1970, c.C.30 of not excluding such articles from possible copyright protection. On p. 17 the Committee notes that, "Models and representations of human and other living beings and of existing articles and things" are generally unprotectable under the industrial design law on the basis of lack of novelty and it recommended no change be made in such law.

24. See Eldon Industries Inc. v. Reliable Toy Co. Ltd., (1964) 44 CPR 239 (Ont. H.C.) where the court suggests that, "...the Copyright Act and the Industrial Design and Union Label Act are a complete codification of the law with respect to copying" in denying recovery on same general unfair competition claim founded on s.7(e) of the Trade Marks Act. In the appellate court decision which dismissed the appeal it was stated, "The principles governing cases of product simulation have been carefully evolved at both common law and in equity and are now stated in statutory form in section 7(a) to (d) [of the Trade Marks Act." (1965)31 Fox Pat. C. 186 at 199 per Schroeder, J.A. The court further stated that granting the plaintiff the relief it sought under s.7(e) of the Trade Marks Act would be "out of harmony" with the Copyright Act and the Industrial Designs Act which limited the monopolies granted by those statutes and which were "...designed to establish order and certainty in the regulation and control of monopolistic rights" (p. 199).

Section 7(e) of the Trade Marks Act has been found unconstitutional in MacDonald v. Vapour Canada, (1976) 66 DLR(3d)1 (SCC). The impact of this decision, if any, on the applicability of the general philosophies stated in Eldon Industries to any claim founded on any provincial law of unfair competition is unclear. It is hoped that the provision for some relief against such copying under industrial design law, where it can be carefully drafted to reflect the proper interests of not only the design owner but also of its competitors and the general public, coupled with the clear exclusion of protection under the Copyright Act proposed above, Ch. 2, will have the effect of forestalling the development of unpredictable rights under such law. The question of possible protection under provincial law raises issues of "federal preemption" by legislation under s.91 (22) and (23) of the B.N.A. Act somewhat similar to the issues considered in the U.S. cases such as Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964). See "The Public Interest and the Right to Copy Nonfunctional Product Features" (1977) 19 William and Mary L. Rev. 317.

25. Johnston Committee Report, supra note 16, p. 19. It was such problems that led to the enactment of the Design Copyright Act 1968 in the U.K., see above, Ch. 2, text after note 167.

26. The Johnston Committee Report, supra note 15, p. 17, observed that at the time of writing (1962) that in the U.K. design registrations were, "usually registered in three months", and a substantial portion were registered in 2 months or less, while the period could be 6 months or more if objections were raised to the registration by the office.

The Canadian Industrial Design Office seeks to register designs within 30 days of application if there are no deficiencies. Industrial Design Policy Guidelines, April, 1978, s.6.2.

As the Johnston Committee further noted, pp. 18-19, the novelty requirement tends to increase the costs of processing applications, both for applicants and for the Industrial Design Office.

27. The Netherlands did not adopt a design law until 1975. Cammelbeeck, G.U.P. in Jehoram, Design Protection (1976), p. 1. Finland and Sweden did not acquire a full designs system until 1970. Ljungman, S. "The New Nordic Design Legislation Under Comparative Aspects" (1973) 4 I.I.C. 336.

Article 5 (quinques) of the Paris Convention, introduced in the Lisbon, 1958 revision, requires all member countries to protect industrial designs. However it is agreed that such protection may be offered through general copyright or unfair competition laws which typically do not involve registration. Bodenhausen, Guide to the Paris Convention, (1968), p. 86.

The limited public unavailability of the U.K. register is described in the Johnston Committee Report p. 13.

28. Fox, Canadian Law of Copyright and Industrial Designs, 2d, Ed. (1967), p. 687. The Johnston Committee Report, supra note 16, pp. 21-22, noted the concerns of the U.K. Patent Office about the adequacy of the search of prior designs that was able to be done. The Johnston Committee replied that it believed that any shortcomings in the existing search were compensated for by the, "...value in preventing some obviously invalid designs from being registered at all." That particular response assumes that a novelty requirement exists in the law, in which case it is clearly desirable to have some kind of search of prior art, almost regardless of its lack of effectiveness. What the response does not address is whether the doubts about the possible effectiveness of the search are so great that they become a reason for questioning the validity of having a novelty requirement at all. If there is a truly effective novelty requirement in the design law, particularly where there is a presumption of validity upon registration, and protection for registered designs beyond just against copying it is hoped that the official search could result in something more than preventing, "some obviously invalid designs" from being registered.

It is our impression that the Canadian Industrial Design Office, while doing a creditable job in the light of the inherent limitations of the task, has encountered difficulties similar to those adverted to by the U.K. Office in carrying out a truly effective search of the prior art.

29. Above, at note 5.

30. The Johnston Committee Report, supra note 16, pp. 21-22, notes that the U.K. Patent office found the test of novelty of perhaps doubtful utility because of its "subjective" nature. The Johnston Committee responded that the test of novelty is no more subjective than many other, "questions of degree" which tribunals are called upon to decide.

When a tribunal, however, is assigned a question such as that of the presence of a degree of novelty in design, the tribunal ought through analysis to strive to identify objectively the critical elements in the question assigned, particularly in the light of the purposes for asking that the question be decided in the first place. Such analysis ought to strive to assign a priority to the elements so identified and to develop direct and indirect (if necessary) methods of measuring the presence of such elements. However imperfectly, such analysis has been attempted, for example, in relation to the inventive step requirement as applied to technological innovations in patent law. It is our impression that there has been measureably less success in attempts to apply such analyses to the novelty requirement for design.

Roy Jackson stated that, "...any reliable criterion of novelty is notoriously lacking" in the field of design. "Industrial Designs in Canada: The Royal Commission Report" (1959), 33 C.P.R. 243 at 244.

In "Protection of Artistic Aspects...," above note 4 at p. 1535, it is suggested that the application of a novelty concept, "...would present problems similar to those previously discussed in connection with 'inventiveness'", for U.S. law.

31. See argument above, text before note 21.

32. Johnston Committee Report, supra note 10, p. 22. There are relatively few decided cases under the Canadian design statute, which may reflect as much as anything the relatively low level of use (in terms of number of registrations) the present awkwardly drafted scheme has encouraged. A very rough assessment of the decided cases where validity of the design was clearly in issue (i.e., excluding applications for interlocutory injunctions and cases on preliminary procedural issues) indicates that nearly half have been held invalidly registered. There would appear to be a trend over the whole period (more than 80 years) toward a greater likelihood that the design registration will be found valid, but see the comments in the text following. However, the number of decided cases is too small to provide significant statistical evidence for or against any thesis.

33. See the discussion of the criterion of novelty ennunciated in Deans Ray Book Co. v. Pomerantz (1930) 47 R.P.C. 485 in the Johnston Committee Report, supra note 15, pp. 15-16. See also Carr-Harris Products Ltd. v. Reliance Products Ltd. (1969), 58 C.P.R. 62 (Ex. Ct.), aff. (1969), 65 CPR 158 n.

34. Above, text at note 17. The Johnston Committee, supra note 16, p. 22, in describing and approving of the courts' development of a modest novelty requirement which recognized as novel the particular application of well known subjects from common sources to particular articles, noted the dangers for the novelty requirement itself: "Nevertheless, the registration on this basis of models, often made of the same object, must in the end lead to the requirement of 'novelty' becoming virtually ineffective."

35. The response to other argument presented above, text at note 18, for the retention of the novelty requirement, i.e., the possible innundation of the register with registrations, is in part that it should always be possible to discover through the register whether protection is claimed for a particular design one wishes to copy. Further, the safeguards proposed for introduction into the system as described below in the text will protect the public against excessive and unjustified claims of infringement of designs protected under the proposed system.

While the Johnston Committee proposed a copyright-based design system with originality and not novelty as a criterion of protection, as did the Whitford Committee Report and the U.K. Consultative Document (1981), two other relatively recently adopted design statutes have novelty and not originality requirements: Uniform Nordic Law (1970) and Uniform Benelux Law (1974).

36. Fox, supra note 28, p. 41. Copinger and Skone-James, supra note 19, p. 37. Johnston Committee Report, supra note 15, p. 22.

37. Johnston Committee Report, supra note 16, p. 28.

38. Jackson, Roy, "A New Approach To Protection For the Designs of New Products" (1956) 34 C.B.R. 369 at 379.

39. Above, text after note 26.

40. Nimmer on Copyright, (1981), s.2.08[B] [3], note 115.1. It has been suggested that under the U.S. law there are differing standards of originality applied to the different types of works protected by copyright and that a possibly more stringent standard is applied to works of art, into which category industrial designs will fall if they are to receive any protection under the U.S. copyright law. Gottlieb, George, "Infringement of Pictorial, Graphic, and Sculptural Works," in Infringement of Copyright, P.L.I. Handbook No. 134 (1981) at pp. 173-175. We referred above, Ch. 2, at note 87 aq, to Nimmer's analysis and his severing the "originality" requirement into "creativity" (or artistic character) and originality. Nimmer appears to see a role for originality (as opposed to creativity) in excluding at least the trivial variation on past designs, see Nimmer on Copyright, (1981), s.2.01[B] at note 25. "Creativity" appears to be related to the concept of originality described in the text in this context in that it represents a failure to invest sufficient skill and effort in the particular design to give it an artistic character as something apart from those elements dictated by function.

41. Nimmer on Copyright, (1981) s.2.01[B].

42. Fox, supra note 28, pp. 42, 156.

43. Copinger and Skone-James, supra note 19, p. 37.

44. H.R. 4530, 96th Congress, 1st Session. The bill was introduced as an amending addition to the copyright statute. Proposals for a copyright-style design act for the U.S. have been made frequently since 1914. The provisions of H.R. 4530 have appeared in substantially the same form in other bills at least since the mid-1960s. Dulin, J.M. "Statutory Design-Rights: Solution To The Unfair Competition of Piracy" (1965), 65 T.M.R. 158. A bill similar to H.R. 4530 was originally included as part of the Senate version of the bill which became U.S. copyright statute of 1976, but was deleted from the final legislation at the initiative of the House of Representatives. See Ringer, Barbara, "The Unfinished Business of Copyright Revision" (1977) 24 U.C.L.A. Law Rev. 951 at 975-76.

45. Section 901(a) of H.R. 4530 provides that an "...original ornamental design of a useful article" may be protected under the legislation. Section 901(b) (4) provides that, "A design is 'original' if it is the independant creation of an author who did not copy it from another source." Section 902 excludes designs from protection if they are:

"(a) not original;

(b) staple on commonplace, such as a standard geometric figure, familiar symbol, emblem, or motif, or other shape, pattern or configuration which has become common, prevalent, or ordinary;

(c) different from a design excluded by sub-paragraph (b) above only in insignificant details or in elements which are variants commonly used in the relevant trades."

Section 903 would nevertheless permit a design to be protected under the proposed legislation if it constituted "...substantial revision, adaptation, or rearrangement" of subject matter excluded by s.902(b) and (c), above.

46. "...[T]he law of copyright prevents rights being obtained in trivial or routine variations by the requirement of the Courts that some labour and skill must be involved in creating the work." Johnston committee Report, supra note 15, p. 28. "...[T]here must be labour and skill in using or adopting trade variants if copyright is to exist." Johnston

Committee Report, p. 30.

One aspect of the reasons for concern with an appropriate requirement of originality in this respect is to ensure that there is sufficient scope for competitors to follow a fashion trend that may have been started by the designs of one business. Dulin, op. cit., above note 44 at pp. 165-167. Johnston Committee Report, supra note 16, p. 33. It has been suggested that the originator of any design which may start a fashion trend may not want a broad scope of protection excluding others from copying the "idea" of the design, since unless there are fashion followers there will be no fashion trend which in turn may be essential to the original designer reaping significant rewards from the sale or its particular design.

47. Above, at notes 41 to 43. The recommendation for further statutory definition of originality made below in the text is contrary to the recommendation of the Johnston Committee Report, supra, note 16, p. 68. "...the term "original work" is so well known in copyright law that elaboration is unnecessary and possibly unwise."

48. H.R. 4530, s. 912(a), (b).

49. See below, Chapter 9.

50. Above, text at and after note 22.

51. See below, Ch. 5., text after note (64).

52. See below, Ch. 7., after note (27 a).

53. See below, Ch. 7., after note (119).

54. Industrial Design Policy Guidelines, April, 1978, s.7.1 C.P.O.R., 9 April, 1974, pp. viii-ix; xiii; xv-xix; xxii; C.P.O.R. 2 July, 1974, pp.x-xvi.

55. C.P.O.R., 9 April, 1974, p. xvi, per Commissioner of Patents.

56. U.K. Registered Designs Act 1949, 12, 13 and 14 Geo. 6, c.88, s.4.

The registration of design variants should not present a problem of any unwarranted broadening of protection for the original design registration. If properly registered as variants of the original design they merely reflect the scope of protection that would be granted to the original registration in infringement actions. If a particular variant is improperly registered as such as it is not a mere variant of the original design, it could then have been registered in its own right.

57. Johnston Committee Report, supra note 16, pp. 71-72.

58. See the recommended codification of this aspect of the originality requirement in text above after note 47.

59. See below, Ch. 5, after note (17).

60. The present policy of permitting multiple representations of the same design to be included before registration ought also to be continued, Industrial Design Policy Guidelines, April, 1978, s. 7.1.

See below Ch. 5, Registration, text at notes (21 to 24) for a parallel recommendation to deal with the problem of the "re-regisration" of the same design by the same author, or by the same proprietor even if there is a different author, under a claim that the second design was independently produced (i.e., not copied from the first registered design) and is therefore original and entitled to registration. The recommendation in Ch. 5. must be co-ordinated with the recommendation made here in the text to produce the result: once a design by a particular author has been registered, or once a design has been registered by a particular proprietor, a further design identical in appearance or one differing therefrom only in modifications not sufficient to alter the character or to affect the identity thereof shall be deemed unoriginal and therefore unregisterable except under the proposal made here in the text of registering further variants of a subsisting registered design, under which proposal the term of protection for all such variants would expire at the same time.

CHAPTER 4

PUBLICATION, GRACE PERIOD

1. Introduction

In this section questions are examined concerning publication of industrial designs and its relation to protection under the statute. In particular, what effect publication of the design by the author or other proprietor of the design prior to applying for protection ought to have on the right to obtain protection is considered. In addition, consideration is given to what rules ought to govern the publication of designs by the Industrial Design Office after an application for protection has been made.

2. Current Canadian Law

(a) Effect of Publication Prior to Application

The Industrial Design Act provides that a design must be actually registered within one year of publication of the design in Canada.[1] There is thus a "grace period" of one year from the time the proprietor (or another) has published the design to the date by which the design must be registered. The measurement of this period to the date of registration, and not to the date of application, means that an applicant cannot preserve the opportunity to secure a registration merely by filing an application.[2] The result of this law has been that procedures have had to be adopted to provide special expedition of examination and registration when there is a danger of the one year period expiring before registration can be obtained.[3] It is clearly undesirable for the quality of examination that the office be placed under the pressure of imminent expiry of the time limit, and also unfair to applicants who may find examination and processing delayed for reasons over which they have no control. Consequently, if a grace period is to remain a part of the revised law it should be measured to the date of application and not to the date of actual registration.

(b) Meaning of "Publication"

The present Act does not define what constitutes publication of a design, with the result that the courts have had to develop a meaning for the concept, often looking at British court decisions as a guide. In general publication refers to making knowledge of the design available to any member of the public not under any obligation to keep the design confidential[4] through reproduction in documents or publications, the sale or leasing or offer thereof of articles bearing the design, or the other use of articles bearing the design in public.[5]

(c) Publication After Application

The present Act does not provide a complete code for the Office in regard to the publication of applications. However, the Office treats all applications as confidential until they are accepted for registration. Upon registration the design is entered on the register which is open to inspection by the public.[6] The Office provides a procedure by which an applicant may delay registration and therefore publication for a period up to seven months from the application date.[7] If an application is refused, the application is treated as confidential and it will not be published unless the applicant consents to its publication and the Office decides to publish it, for example, in connection with a decision refusing the application by the Patent Appeal Board.[8]

3. Recommendations

(a) Publication Prior to Application: Herein of a "Grace Period"

Since an industrial design system which will give protection only against copying and which will require only originality and not novelty as a condition for protection has been proposed in this paper, publication by persons other than the proprietor of the design will not *per se* be relevant to the entitlement to secure registration of a design.[9] However, the publication of the applied-for design by the proprietor of the design prior to the date of the application presents a different problem.

It would clearly be unacceptable to permit the proprietor to have published its design for an indefinite period before applying for registration. When a design has been publicly available for a considerable period during which it has been unprotected, others relying on the lack of protection may have adopted the design for their own products.[10] In addition, it is clear that the incentive of design protection is not needed either for the original making, or the public disclosure of such designs. While it is obvious that there cannot be an indefinite period between the proprietor's prior publication and later registration, it is a more difficult question as to whether there ought to be any such period at all or whether any such prior publication ought to be an absolute bar to obtaining registration.

The main argument for permitting a short period, usually referred to as a "grace period", between first publication of a design by a proprietor and the filing of the application is that it permits the proprietor to experiment with designs in the market and to select for registration only those for which there appears to be a market. In addition to the saving to applicants in the expense of applying for registration for more designs than they will actually use, there is the reduction in the burden on the Industrial Design Office.[11] A further argument made in favor of a grace period is that it permits the design proprietor at least a short period to recover from what would otherwise be the irredeemable mistake of publishing before applying for protection. It is sometimes suggested that less sophisticated (in intellectual property matters) smaller businesses are particularly vulnerable to such errors, often not thinking of seeking legal advice concerning the possible protection of designs until after they have begun to exploit the design, and perhaps begun to fear or actually encounter competition from copyists.[12]

The arguments against having any grace period are first, as noted above than when the design has been published, there would appear to be no need of design protection in relation to that design as an incentive to public disclosure of the design.[13] The second argument is that it is misleading for, and unfair to, the public to have designs published without registration even having been applied for, and then later to have protection claimed under the statute. During the period of publication without protection, other businesses may begin to make investments in adopting the published design. It is suggested that no effective method of giving notice of at least a reservation of a right to claim protection, e.g., through some form of marking of articles in circulation bearing the design, can be devised.[14] It may also be suggested that permitting a period of publication without application for protection, as it will increase the period during which the design is known but protection under the statute (which begins on registration) does not exist, will increase the need for, and the use of, necessarily complex schemes of prior or intervening rights, i.e., rights to continue to use the design that may be granted to persons other than a design registrant where such persons began to use the design before the registrant secured registration.[15]

A further argument against a grace period is that it may in fact work against the interests of Canadian design proprietors. Such persons may be lured into publishing their designs before applying for registration in reliance upon the Canadian law. However, as the law of many foreign countries has no grace period, the effect of such publication will be to bar the Canadian design proprietor from securing the potentially very valuable design protection rights in such countries.[16] Another factor that militates against the adoption of a grace period in a revised Canadian Industrial design law is that it would permit foreigners (as well as Canadians) to secure protection for designs in Canada that could not be protected in their home and other countries because of their earlier publication of the designs.

On balance the arguments favor no grace period in the revised Canadian Industrial design statute. Consequently, it is recommended that the revised statute provide that a design be disqualified from protection if the design has been published anywhere in the world by, or with the consent of, the proprietor of the design in the place where publication takes place.[17] It has been recommended immediately above that registration of a design in Canada be barred by earlier publication anywhere in the world rather than just publication in Canada. It is not in the interest of Canada to permit the protection in Canada of designs that may be denied protection in other countries on account of earlier publication in those countries or elsewhere. Applicants for design protection in Canada which have applied for design protection in another Paris Convention country and subsequently published their designs, will be able to avail themselves of the six month Convention priority right to secure design protection in Canada notwithstanding such publication occurring before the application is made in Canada, provided that their applications were filed within the priority period.[18] Of course, applicants under the Canadian industrial design statute would have a similar right of priority in respect of applications made in other Paris Convention countries.

One of the objections that has been made to standards of novelty or inventiveness on a worldwide basis is that it makes intellectual property rights of uncertain validity because some obscure earlier disclosure may render the rights invalid when their validity is challenged in later court actions. It is argued that the worldwide standard as opposed to the local standard of novelty greatly increases the chances of such obscure prior disclosures being later discovered.[19] However, this argument has much less force in relation to a system such as that proposed here where the criterion of protection is originality and not novelty.

Under a system in which originality and not novelty is the criterion of protection, the existence and publication of designs which are identical to a particular design it is sought to register will not be relevant to the registrability of the particular design provided that the latter design is original, that is provided that the author of it did not copy it from those other designs.[20] Under a system of originality as a test of registrability the concept of "same design" (as in the prohibition of registration if the "same design" has been published anywhere before application) is not mere identity of appearance, but also identity of original authorship.

Under the system proposed here it is only publication of the same design by the proprietor in the place of publication which can bar registration for that design from being obtained under the Canadian statute. If that proprietor is not the same legal person as the proprietor of the design in Canada, given the definition of "same design" that proprietor will be related to the proprietor in Canada through assignments of rights in the design. For example, the proprietor in Canada may have received an assignment of the Canadian design rights from the legal entity which is the proprietor in the foreign country. In another case the proprietor in Canada may have assigned the design rights in the foreign country to the proprietor there who caused the publication to be made. In yet another case the proprietor in Canada and the proprietor in the foreign country may have both received assignments of design rights from the same person. Applicants for design protection in Canada ought to be able to arrange their affairs so that they are not surprised by their own earlier publications of the design in Canada or elsewhere or the publications of those related to them in title to the design.[21]

(b) Definition of "Publication"

Publication that will bar later registration must be by or with the consent of the proprietor of the design in the place of publication. Like the concept of publication in the present industrial design law, publication under the revised law should not include confidential disclosures or disclosures made as a result of a breach of confidence.[22] In addition, a provision should be contained in the statute permitting the publication of designs at prescribed official exhibitions without having such publication bar later registration of the design.[23]

A further question arises as to whether the prior publication of an artistic work, e.g., an engraving, would in itself constitute the prior publication of an industrial design utilizing that work, e.g., the engraving applied as decoration to the surface of serving trays. While the industrial design and the artistic work are not identical, it is possible that the prior publication of the artistic work would be seen as substantially the publication of the industrial design so as to bar registration of the latter unless some special provision is made.

It is recommended that a provision be introduced into the revised industrial design statute which states that when copyright subsists in a work, and an application is made to register a corresponding industrial design, the industrial design shall not be treated as having been previously published by reason only of the publication of the artistic work.[24]

(c) Publication After Application

The present Canadian law and practice has been noted above which involved keeping confidential all applications for registration unless and until they are accepted for registration. There are some reasons why early publication of applications, the earliest possible being immediately on application, ought to be favoured. In particular, early publication gives notice to the public of rights being claimed and gives the public opportunity to avoid situations which might lead to claims of infringement when and if registration is granted.[25] Early publication also permits the public to register objections with the Industrial Design Office, if they have reasons for which they believe that registration ought not to be granted.[26] Finally, early publication tends to disseminate new design art more quickly and may contribute to a more rapid pace of advancement in the design art.[27]

On the other hand applicants have good reason not to want early publication of applications. They may fear that early publication will alert competitors to their new product designs too early and allow competitors to develop their own new product designs in response in time to compete with the applicants' actual introduction of the new designs to the market.[28] In addition early publication may jeopardize the ability of applicants to secure design protection in certain other countries.[29]

An appropriate balance between the desireability of early publication of applications and the needs of applicants for secrecy can be struck by providing that all applications will be published upon registration, and in addition, regardless of their status at the time,[30] will be published at a fixed time measured from the date of application or the Convention priority date where such is claimed. It is recommended that the prescribed period be seven months from the date of application or priority date, the same period that is now provided for under the present Industrial Design Policy Guidelines for a delay, upon request of the applicant, in registration and thus publication under the present law.[31] In addition, in order to protect the opportunity to secure registration of designs in certain foreign countries, it is recommended that the present policy of permitting applicants to request a delay in registration for a period up to seven months from the actual application date or Convention priority date (whichever is earlier) be given statutory form.[32] A further advantage of the publication of all applications after a fixed period, including refused applications, will be that the public will be able to derive a better understanding of the standards being applied by the Industrial Design Office from an examination of the refused, as well as the accepted, applications.[33]

The above proposal strikes a better balance than an alternative, seen in the law of some other countries, i.e., very prompt publication of applications coupled with a right to apply for a delay in publication of the application for a specified period.[34] While there may be reason to have prompt publication of design applications, the reasons are not as compelling as in the case of patent applications, and particularly so when the scope of protection for designs is to be to prevent copying only. Further, where a right to request a delay in publication existed, such requests might tend to become the norm, at least for the period until the application had been accepted for registration. Finally, since the period between application and registration for most applications is likely to be fairly short, there may be relatively little to be gained by attempting to compel publication before registration in many cases.[35]

4. Mode of Publication After Application

At present registered industrial designs become public only by being entered in the register of industrial designs which is open to public inspection. There is no equivalent for industrial designs of the Patent Office Record for patents or the Trade Marks Journal for trademarks.[36]

An important factor in deciding whether such an official journal ought to be published for industrial designs is whether a formal opposition procedure is to be recommended for the designs system. Below, it is recommended that there be no such formal opposition procedure, consequently there need be no official journal for that purpose.[37] Nevertheless, it may still be desireable to have an official journal of design registrations for the purpose of giving the public notice of the existence of design registrations.

One factor in assessing the utility of such an official publication is whether a form of publication of notice of design registrations could be devised that would give useful information about the individual registrations without being misleading. Publication of the entire registration is likely to be impractical, for cost if no other reasons. However, the publication of a single drawing and/or abbreviated description of the design may be more misleading than helpful, as well as presenting its own problems of costs.[38] Nevertheless many countries do publish at least lists of registered designs giving name of proprietor, title of design, and the type of articles to which the design is applied. Serious consideration ought to be given to the publication of at least such material for each registered design, either as an independent publication, or as a section of one of the existing official journals.[39]

5. Summary of Recommendations

(a) Effect of Publication Prior to Application

To secure a valid registration an application for registration must be filed prior to the publication of the applied-for industrial design, or the publication of a design varying therefrom only in immaterial details, anywhere in the world. For these purposes the date of application must be treated as the earlier of the actual date of application in Canada, or the properly claimed Paris Convention priority date.

(b) Definition of "Publication"

1. For the purposes of recommendation A, above, "publication" should be defined as any disclosure of the industrial design to a member of the public by or with the consent of the proprietor of the design in the place of publication otherwise than in confidence, or as a result of breach of confidence or contract. When there has been a public disclosure of the design in breach of confidence or contract, consideration ought to be given to enacting a provision requiring the proprietor to seek registration within a reasonable time of its learning of such disclosure.

2. A provision should be enacted as an exception to Recommendation A, above, excluding publication which occurs at a prescribed official exhibition (domestic or international), provided that an application is filed within six months of the opening of the exhibition.

3. When copyright subsists in a work, and an application to register a corresponding industrial design is made by, or with the consent of, the owner of the copyright, the industrial design should not be treated as having been previously published by reason only of the publication of the artistic work.

(c) Publication After Application

1. All applications should be made public immediately upon registration by the Industrial Design Office.

2. In addition, unless abandoned by communication of notice of abandonment to the Industrial Design Office, all applications, regardless of status should be made public seven months after the application date or convention priority date, whichever is earlier.

3. It should be possible for applicants to request a delay in registration of up to seven months from the date of application or the priority date, whichever is earlier.

(d) Mode of Publication After Application

Consideration ought to be given to the feasibility of publishing an official journal of design registrations.

6. *Footnotes to Chapter 4*

1. *Industrial Design Act*, R.S.C., 1970, C. I-8, s. 14(1).

2. Patent Appeal Board (Commissioner of Patents) decision, C.P.O.R., Dec. 24, 1974, p. viii.

3. *Industrial Design Policy Guidelines*, April, 1978, s. 3.2.

4. *Global Upholstery Co. Ltd. v. Galaxy Office Furniture* (1976), 29 CPR (2d) 145 (F.Ct.) at p. 167; *Allaire v. Hobbs Glass Ltd*. (1948), 9 CPR 3 (Ex.Ct.) at 21-22.

5. *Ribbons (Montreal) Ltd. v. Belding Corticelli Ltd*. (1961), 36 CPR 65 (Ex.Ct.) at 77; Patent Appeal Board (Commissioner of Patents) decision, C.P.O.R., Dec. 24, 1974, p. xiii; Fox, *Canadian Law of Copyright and Industrial Designs*, 2d. Ed. (1967), pp. 668-669.

6. *Industrial Design Act*, *supra* note 1, s. 21(1).

7. *Industrial Design Policy Guidelines*, April 1978, ss. 6.2, 10.0. An applicant may wish to delay publication and registration for marketing reasons or to preserve the opportunity to register the design in certain foreign countries which bar registration if the design has been earlier registered elsewhere.

8. Notice to the Profession, C.P.O.R., 2 July, 1974, p. ix.

9. Prior publication of a design by a person other than the proprietor would be relevant only if the applied-for design were copied from the earlier design and so were not original. Unless there had been sufficient prior publication of similar designs such that the applied-for design could be seen as simply a variant of a common-to-the-trade design (and so would not represent the investment of sufficient skill and labour to be original), the prior publication of designs by others would not be considered by the Office in assessing whether the applied-for design had *prima facie* originality.

10. This problem is also considered below, at note 25, in reference to a possible requirement of early publication of applications.

11. Eder, E., "Industrial Designs in the Whitford Committee's Report," CIPA, July, 1977, p. 480 at 485. Board of Trade, *Report of the Departmental Committee on Industrial*

Designs (1962, U.K. Cmnd. 1808) ("Johnston Committee Report"), p. 19.

12. It is further suggested that Canadian owned businesses would predominate in the class of smaller businesses in Canada. It is observed that foreign owned businesses in Canada tend to be branches of larger, more sophisticated operations (if they are not relatively large themselves) and so are more likely to be aware of the law governing intellectual property. The conclusion of such an analysis is that the lack of a grace period tends to discriminate against small, Canadian businesses while having a lesser effect on larger, often foreign-owned businesses.

13. As with the patent system, one of the arguments in favour of an industrial design system is that it is needed to encourage proprietors of designs to disclose them. It is argued that without the protection of the system proprietors would not disclose their designs for fear they would be copied.

14. *Johnston Committee Report*, *supra* note 11, p. 31. First, it may be suggested that there are many practical problems with physically attaching the notice: What size and form of notice will be adequate to give the correct message? Can the notice be on packaging or on associated literature, or must it be on the article itself? How are conflicts between the need for a clear and adequate notice and other needs and desires in relation to product and package appearance to be balanced? What of international movement of goods and the potential confusion that may then arise from marking--must there be separate marking for every jurisdiction to avoid this? Must products be recalled and remarked when either no application is filed within the time period, or an application is filed and then accepted, rejected or withdrawn?

15. See *Working Paper on Patent Law Revision* (1976), p. 241 for a discussion of a proposal for such rights in a revised Canadian patent law.

16. Where the foreign law bars protection on the basis of publication anywhere in the world, publication in Canada alone will cause a loss of the right to secure protection. See the Uniform Nordic Design Law, Ljungman, "The New Nordic Design Legislation ..." (1973), 4 IIC 336 at 342. In relation to other countries, reliance on the Canadian law may cause a business to publish in a foreign country (*e.g.*, by exporting articles to that country from Canada) without first applying for registration there. For example, the Uniform Benelux law, the British, Australian and New Zealand design acts all bar protection where the design had been published in those countries before an application is filed.

17. The Uniform Nordic Design Law has no grace period with respect to its test of worldwide novelty. However it does have provisions protecting the applicant's right to register after publication which is the result of "manifest abuse" of the rights of the applicant or predecessor in title, or of display in an officially recognized exhibition. Sections 2, 3. [1971] Industrial Property 223. See below in text for consideration of such problems. The Uniform Benelux Design Law has no grace period in relation to its test of novelty within the Benelux territory. The present British designs statute has no grace period in relation to the local novelty test in that statute. The Johnston Committee Report, supra, note 11, p. 31, recommended that there be no grace period in respect of their proposed Design Copyright scheme. The proposal for a U.S. design protection statute in 1979 did, however, contain a six month grace period, H.R. 4530, 96th Congress, 1st Session, s. 909(a), (b).

18. See below, Chap. 14, text at note 13, for a discussion of proposals regarding Paris Convention priority requirements in a revised statute.

The recommendation that the right to secure industrial design protection in Canada be lost by prior publication anywhere in the world is consistent with the recommendation made earlier that application of a copyright protected artistic work as an industrial design anywhere in the world ought to cause loss of copyright protection. See above, Chap. 2, text at note 92. See also Ilsley Royal Commission, Report on Industrial Designs, p. 20, for a similar recommendation.

19. Working Paper on Patent Law Revision, (1976) p. 186.

20. The statement in the text assumes that the publication of the earlier designs was not sufficient to cause the particular design for which registration is sought to be unoriginal as being staple or commonplace or differing therefrom in only insignificant details. See above, Chap. 3 text at note 48.

21. Applicants who take assignments of design rights (before or after application has been made) could protect themselves against the effect of prior publication by their predecessors in title, assignees of their predecessors in title or others related in title to their assignors by insisting on express warranties from the assignor that no such publication had occurred.

The recommendation made in the text is consistent with that made above in Chap. 2, text at notes 92 and 93. There it was recommended that when copyright exists in a work and that work is applied as an industrial design and that design is published, by or with the consent of the owner of copyright in the place of publication, copyright is lost in respect of the work applied as that industrial design and as associated designs.

22. See *Johnston Committee Report*, *supra* note 11, pp. 55-56 for comments on the present U.K. *Designs Act 1949*, s. 6 which deals with disclosures made as a result of breach of confidence. The Committee suggests that in its proposed Design Copyright system a simpler clause providing that prior publication, "... otherwise than in breach of confidence or contract by, on behalf of, or with the consent of, the author or any proprietor ..." of the design would bar registration, would serve the purposes of s. 6 in the *Registered Designs Act 1949*, p. 72.

See Designs Law Review Committee, *Report on the Law Relating to Designs*, 1st Term of Reference, (Govt. of Australia, 1973) ("Franki Committee Report"), p. 41 for a recommendation that the Austrialian designs statute adopt the approach of the Australian Patents Act. Under that approach there is no reference to a requirement of breach of confidence to make a prior publication non-disqualifying of registration. Rather that statute provides that when the prior publication was derived from the applicant or a predecessor in title, and if it took place without the knowledge and consent of the applicant, and if the applicant applied for protection "with all reasonable diligence" after learning of the publication, such prior publication will not bar registration.

The requirement of a lack of knowledge and consent in the Australian recommendation would appear to overlap in many cases the requirement that a publication take place without a breach of confidence or contract. However, if the Australian test would exclude publications which took place without the express consent of the proprietor of the design, but in circumstances where the proprietor had disclosed the design to others, but had not taken steps to insure that those others were bound by an obligation of confidence not to disclose, the proposed Australian test is not appropriate. However, the requirement that a design proprietor seek registration within a reasonable time after learning of an improper prior disclosure is a sensible one and ought to be considered for adoption in a revised Canadian industrial design statute.

23. See U.K. *Registered Designs Act 1949*, 12, 13 & 14 geo. 6, c. 88, s. 6(2). This section requires that application for registration be made within six months of the opening of the exhibition. See *Working Paper on Patent Law Revision*,

pp. 190-191. Proposed Patent Law, s. 16(1)(b). Article 11 of the Paris Convention (London Revision) to which Canada has adhered requires that we disregard publication which occurs at official international exhibitions, but not so as to be required to extend the priority period provided for in Article 4 (six months for industrial designs--this may be, in part, the source of the U.K. Registered Designs Act 1949 six month limit for application.) Like the Patent Working Paper, it is recommended that the preservation of the right to obtain protection be extended to recognized domestic exhibitions as well. See Bodenhausen, Guide to the Paris Convention (1968) pp. 150-151 for a brief discussion of the problems in establishing what are "officially recognized" exhibitions.

24. The Johnston Committee Report, supra note 11, p. 95 made a similar recommendation in relation to its proposed Design Copyright system and suggested that s. 6(4) of the Registered Designs Act 1949, supra note 22, be used as a model. If s. 6(4) of the U.K. statute is used as a model for the revised Canadian act under these proposals it will have to be modified, in particular to make it consistent with the recommendations in Chap. 2 on the definition of industrial design, and the circumstances causing loss of copyright for works used as industrial designs. The section should provide that where copyright subsists in a work the earlier use of an artistic work shall not be treated as publication of a corresponding industrial design unless,

(a) The artistic work has been applied as the industrial design for which protection is sought or as one only immaterially different or a mere trade variant of such design. "Industrial design" for such purposes shall be defined as recommended above, i.e., features of appearance of utilitarian articles where the latter are defined as articles havng some function other than merely to portray the design or to be contemplated, and other than merely to convey information. See Chap. 2 after note 17. In regard to the definition of "industrial design" in this context, regard should be had to the effect of regulations made under the power recommended above, Chap. 2, text at notes 20-31.

(b) The industrial design has been published, i.e., disclosed to some member of the public other than in confidence or as a result of a breach of confidence. Unlike the U.K. act s. 6(4), the concept of publication ought not to be limited to the sale or offering for sale of articles bearing the design. In addition, the test of application as an industrial design ought not to refer to the making of any minimum number of articles, as does the U.K. legislation in s. 6(5) which incorporates the 50 article test. See above, Chap. 2, at note 78.

(c) The previous use of the artistic work must be by, or with the consent of, the owner of copyright in the work, in the place where publication occurs. See the Franki Committee Report, supra note 21, pp. 60-61 for a similar, but not identical, recommendation.

(d) The application for registration of the design must be brought by or with the consent of the owner of copyright in the artistic work.

The Franki Committee Report, p. 41, also noted potential difficulties with the Australian Designs Act equivalent to s. 6(4) of the U.K. Act [Australian act s. 17A]. It was noted that the design office would have to determine whether copyright still subsisted in a particular work. [It is the intent of the recommendation in this paper to adopt the approach of the U.K. and Australian equivalent provisions: the saving clause should not be available where copyright in the artistic work has expired]. In addition, the office may have to determine whether the artistic work was applied as an industrial design with the consent of the copyright owner. It should be provided in the statute that where publication of a corresponding industrial design is shown, that shall be deemed to constitute prima facie evidence that such publication was with the consent of the copyright owner, both in proceedings before the Industrial Design Office concerning the application for registration, and in any later court proceedings challenging the validity of any design registration. See a similar recommendation above, Chap. 2, text at note 90, in relation to loss of copyright.

25. Since protection under the design system proposed here is only against coying, the scope for potential problems is more limited than under a monopoly protection system.

26. The protests of the public may be received through a formalized opposition procedure (see below, Chap. 5, text at notes 68 and 69 for a discussion of the appropriateness of an opposition procedure for the proposed designs system), or through the informal receipt of protests.

27. The importance of early dissemination of new design art, since by definition it cannot apply to the operational features of articles, may be less important than the early dissemination of new technology, e.g., through the early publication of patent applications.

28. A variation on this problem is the fear that infringers will learn of new designs sufficiently early to flood the market with infringing products, before the design owner has been able to introduce its own product into marketing channels. It may be argued that remedies against such infringers are often inadequate as the source of the infringing products may be in some foreign country (which compounds the practical and legal problems of securing relief), and may be "shell" corporations which are left without assets after having produced and sold the infringing products, for which it may be very difficult practically and legally to trace the real owners.

29. Industrial Design Policy Guidelines, April, 1978, s. 6.2.

30. The only exception should be the case of an application which has been abandoned by the applicant by giving notice of such abandonment to the Industrial Design Office, prior to the date upon which the application would otherwise be published. See Working Paper on Patent Law Revision, p. 226, Proposed Patent Law, s. 40 (1), (5). The Johnston Committee Report, supra, note 11, p. 62, noted that an applicant may abandon an application because it has decided to postpone the exploitation of the design, and the Committee agreed that in such circumstances the applicant ought not to be prejudiced by compulsory publication at a fixed date after application.

31. Section 6.2. The period is measured from the application date only under s. 6.2.

32. The reference to the Convention priority date would be new.

33. Under the present procedure, when a refusal of an application is upheld by the Patent Appeal Board, and the reasons for the refusal do not become public through an appeal to the courts, the reasons can only be published if and when the applicant consents to their publication. The Johnston Committee Report, supra, note 11, p. 62, made a similar recommendation (all applications to be published, unless earlier abandoned, 12 months after the actual application date) an cited this same reason as one basis for their recommendation.

34. The Uniform Benelux Designs Law (see [1974] Industrial Property 178) requires publication of registrations of designs as promptly as possible, Art. 9(3). However, since the Benelux system involves no examination (other than for designs which are contrary to morality or public order), registration should follow shortly on application.

Article 11 of the Law permits requests for postponement of publication for a period up to 12 months from the application or priority date. There can be no liability for infringement for acts prior to the publication of the design. Article 14(2).

The Uniform Nordic Design Law ordinarily involves publication upon application. Uggla, C., "The Swedish Design Protection Act," [1971] Industrial Proprty, 241 at 243; Godenheim, B., "Letter from Scandinavia," [1971] Industrial Property 256. The Nordic laws provide for a request for deferrment of publication for a period of up to six months from the application or priority date.

35. At present the Industrial Design Office seeks to register applicatons within 30 days of receipt provided that no deficiencies are found. Registration times should be at least as quick under the proposed system, particularly as no search and examination for novelty will be required.

36. Article 12 of the Paris Convention (Rome, 1928) requires the publication of official journals for both patents and trademarks. There is no such requirement for industrial designs.

37. Below, Chap. 5, text at note 68. If there were a formal opposition procedure, an official journal would be desirable to give the public notice of pending applications and the right to enter official oppositions to them.

38. In addition to the direct publication costs there are the costs of administration in reviewing and approving the descriptions to be used in the journal. The less that is spent on the latter, the greater the chances that the published material will be misleading.

39. See Kase, Francis, Designs, A Guide to Official Literature on Design Protection (1975). The publication of such a journal ought to be "self-supporting" financially, i.e., revenues derived from subscriptions and/or fees for registration and publication ought to equal the costs. Consultation with the intellectual property profession (agents and lawyers) ought to be useful in revealing whether such a publication is needed, what form it ought to take, and whether the costs involved are justified by the benefits sought.

CHAPTER 5

REGISTRATION

1. Introduction

Under the present Industrial Design Act protection for an industrial design is obtained through filing an application with the Industrial Design Office which examines the application and causes the applied-for design to be registered if it meets the statutory requirements.[1] The examination focuses largely on whether the applied-for design represents the proper subject matter for an industrial design registration,[2] and on whether the applied-for design is novel[3] based on a search of previously registered designs and other previously published material featuring relevant designs.

Since the adoption of a test of orginality has been recommended above rather than novelty for qualification for protection of an industrial design, it might be suggested that any form of examination and registration could be abandoned as unnecessary. Below the arguments for and against the retention of a registration system are considered as well as what type of registration, if any, ought to be required.

2. The Desirability of Registration

(a) Arguments Against Requiring Registration

The first argument against requiring registration as a prerequisite to protection is that with no requirement of novelty as a condition of protection, the processes of search, examination and registration are no longer necessary. A further argument for a system of "automatic" protection, without any registration requirement, is that it avoids the problem of delays in obtaining protection which may permit copyists to reproduce a design and to flood the market for that design before the proprietor of the design has been able to secure registration.[4] In addition, it may be suggested that the costs of securing protection under a registration system can impose substantial and unreasonable burdens on design proprietors.[5].

The above arguments are not accepted. Notwithstanding that the criterion for design protection is to be originality and not novelty, there is a valuable role to be played by a process of examination and registration in rejecting applications for designs that display no prima facie originality, and even more importantly in denying protection to designs which extend to operational features. Since the search and examination for novelty will be eliminated, it should be possible to expedite the registration process somewhat over the period taken to secure registration under the present law, so that delays in registration should generally not pose major problems for design proprietors.[6] The costs of securing registration, where the procedure is essential for the protection of the public interest and where it may bestow a significant potential benefit on the registrant, are not an unreasonable burden on design proprietors.

(b) Arguments For Requiring Registration

There are important advantages to be gained from the retention of a form of registration system. The central purpose for such a system is to provide a means by which the public may discover for what designs protection is claimed. As noted above, those producing utilitarian articles ought not to be put in the position where they should assume that they are not entitled to copy features of designs which have earlier been published.[7] Without a system of registration of industrial designs, it will be very difficult for those wishing to determine if they are legally entitled to copy features of an earlier design, to be able to do so.[8]

A further purpose of the registration requirement, closely related to the purposes stated above, is to provide a workable means of fixing the commencement and term of protection for each protected design. Under proposals made below, the term effective of protection will run from the date of registration and be measured from the date of application for registration.[9]

A further advantage of a registration system is that it will give applicants a date of application that can be used to claim a Paris Convention priority date for securing industrial design registration in many other member countries of the Paris Convention.[10] Another advantage of a registration system is that it may assist the proprietor in proving the existence of a design in which protection subsists and his ownership thereof in litigation, which in many instances as a practical matter may be more difficult to do under an "automatic" system of protection.[11]

3. Type of Registration

The Johnston Committee in recommending the adoption of a Design Copyright system by the U.K., proposed that there be a requirement of a "deposit" as opposed to registration for that system.[12] The Committee distinguished the deposit from the requirement of registration under the existing U.K. industrial design law by noting that the purpose of the representation filed as a deposit would not be to define the design but merely, "...to provide a means by which the public can recognize designs in which copyright is claimed and find out their proprietors."[13] Under this proposal there would be no examination of design deposit applications other than a check for merely formal requirements. There would be an incentive to file a proper representation of the design in the deposit, however, as if the design was not clearly recognizable from the representation deposited, the deposit (and thus protection) would be invalid.[14]

The Johnston Committee Report also states that under the Design Copyright system they recommend, the two-dimensional representation of a design that would be filed as a deposit could not be treated as defining the design for the purposes of establishing the scope of protection for the design.[15] The reason for this is that under their proposals the deposits would be subjected to only a minimum of examination by the design office which, "...would not include inspection of any representation to see whether it is complete."[16]

Unlike the system proposed by the Johnston Committee, the recommendations made in this paper require that the Industrial Design Office conduct an examination for both *prima facie* originality and to ensure that the design does not extend to operational features. For the purposes of such examination the representation filed will have to define the applied-for design adequately to permit the Office to conduct its search and examination. Consequently, the objection made by the Johnston Committee to using the deposit for its Design Copyright system to define the protected design does not apply to the registration of the design under the proposed system. Furthermore, since the function of the registration is giving notice to the public of claims for design protection, a registration which defines the scope of protected design will give far more effective notice of such claims than one which did not define the design.

The reasons for providing that the Industrial Design Office be required to examine and to refuse registration to those designs which do not demonstrate *prima facie* originality have been explained above.[17] Also above the importance placed on ensuring that industrial design protection is not extended to the operational features of the utilitarian articles to which designs are applied has been indicated.[18] Consequently, it is recommended that the Industrial Design Office also be required to examine applications for the purpose of assessing whether they comply with the statutory requirements recommended for proper subject matter for industrial designs: (i) that a design be solely for features of appearance of a useful article, (ii) that a design have an ornamental character, (iii) that the design not consist of features of appearance which are primarily attributable to any function which the article has to perform and (iv) that the design does not consist of features of appearance which the effect of protecting would be to grant protection in relation to any method or principle of construction or manufacture.[19]

The recommendation that the Industrial Design Office have the power to refuse applications with no *prima facie* originality is similar to a proposal made by Mr. Roy Jackson.[20] However, Mr. Jackson also recommended that the Industrial Design Office conduct a search of the already registered designs as well as a search based on "...an index of well-known published designs of various countries..."[21] Mr. Jackson recommended that the Office note on the registration of any design, earlier designs which were identical or with respect to which the registered design could not be viewed as novel. The general purpose of such a procedure would be to "prevent abuse of the design law," by noting for the public where earlier designs, particularly those in the public domain, identical to the particular registered designs existed and which could be copied without liability to the particular registered design proprietors.[22]

In addition, the procedure suggested by Mr. Jackson was designed to cope with a special problem, intentional re-registration of an industrial design after an initial registration had expired in an attempt to extend the term of protection for the design by securing another registration for it.[23] If such registrations were permitted, they would defeat the purpose of the industrial design law in limiting the period of protection available for any design to the statutory period.[24] In order to put it beyond doubt that any such registration would not be properly obtained under the revised legislation, the statute ought to provide that a design would be deemed unoriginal, and therefore unregistrable,

(a) if it is the same as, or differs only in such modifications or variations not sufficient to alter the character or to affect the identity of, a design for the same or any other article, by the same author which has been previously registered, otherwise than as a result of a breach of confidence, by, on behalf of, or with the consent of the author or any proprietor thereof,[25] or

(b) if it is the same as, or differs only in such modifications or variations not sufficient to alter the character or to affect the identity of, a design for the same or any other article, which has been previously registered by, on behalf of, or with the consent of the same applicant or any predecessor in title of such applicant.[26]

The form of application should require applicants to state that they are not knowingly applying for registration contrary to the two prohibitions stated above.

The incentives not to contravene the above prohibitions will flow in part from the fact that any registration obtained in contravention of them will be invalid. Further, an infringement action brought in relation to a registration when the plaintiff proprietor knows that the registration was obtained by a false representation knowingly made would render the plaintiff liable to the defendant for special damages under the provision for such damages that recommended below.[27] Finally, a knowingly false representation in obtaining a registration would constitute an offense under statutory provisions recommended below.[28]

Mr. Jackson's recommendation that a search and examination be conducted by the Industrial Design Office ought to be adopted at least so far as is necessary to permit the Office to assess whether the design has prima facie originality, including whether there is any contravention of the two prohibitions of registration suggested above, and to assess whether the design extends to operational features. The search and examination, however, should not go further than this and include Mr. Jackson's suggestion that substantially identical prior art be noted on the registration by the Office. The difficulty in applying the novelty standard to industrial designs was noted above.[29] The proposal that relevant prior art be noted on a design registration would require the Office to apply a novelty standard in deciding what, if any, prior art to note in relation to a particular design. Since such notations may be perceived by applicants as substantially reducing the value of a registration, such a procedure could lead to the same kind of protracted prosecutions of applications that would be encountered if a full novelty criterion for registration were applied. Consequently, the proposed procedure runs the risk of eliminating any of the hoped-for shortening of application processing time that may be achieved by abandoning the novelty standard. Further, given the inadequacy of existing search files of the prior art, particularly when the relevant prior art is defined on a worldwide basis,[30] a system of such citation by the Office may be more misleading than helpful to the public. There may be some tendency under such a system for the public to treat a registration which did not bear a citation of prior art as one for which no relevant prior art existed, when that would not be a sound assumption in the light of the difficulties in locating prior art.

4. Content of Registration

(a) Statutory Definition of Industrial Design

Before describing the material to be included in the registration itself, it is desirable to refer to several further aspects of the proposed statutory definition of industrial design, as that definition will determine to a considerable extent the appropriate content of the registration.

(i) General Appearance of an Article vs. Features of Appearance of an Article

Earlier it was noted that the U.K. Consultative Document (1981) in recommending revision of the U.K. copyright statute to protect industrial designs had recommended that the "general appearance of an article" should be made a work to which copyright protection applied.[31] Above the adoption of this recommendation as a part of Canadian copyright law was rejected but the question remains whether that phrase would be a more apt phrase for use in the definition of "industrial design" whithin the Industrial Design Act, to replace the language of the U.K. industrial design statute ["...features of shape, configuration, pattern or ornament applied to an article..."] which has been adopted by our courts, and recommended by the Ilsley Royal Commission for adoption in the Canadian statute.[32]

The adoption of a definition of industrial design which refers to the "general appearance" of articles is not recommended. One of the reasons that is given in the U.K. Consultative Document for adopting such an approach is the difficulty in distinguishing between "aesthetic and other elements" of an article. As indicated above in the recommendations concerning the exclusion of the application of industrial design protection to operational features, only the "aesthetic" features, in the sense "ornamental character" has been defined above, of a design ought to be protected.[33] Therefore the reason given in the U.K.

Consultative Document is not accepted as a ground to adopt the "general appearance of an article" language in the definition of industrial design.

No recommendation is made for any form of language for the definition of industrial design which is superior to the general approach of the U.K. Registered Designs Act 1949, s. 1(3), which refers to features of appearance applied to a utilitarian article. That section refers to "features of shape, configuration, pattern or ornament," a phrase which has been treated as if it were almost a part of Canadian law in some court decisions.[34] It has been observed that the phrase may be redundant in that shape or configuration on the one hand, and pattern or ornament on the other may be the same.[35] The inclusion of that phrase or one to a similar effect is desirable because it makes clear that industrial design includes both two and three dimensional designs.[36] It is recommended that the revised Canadian statute contain the above phrase because it has been judically interpreted and appears to achieve the intended purpose.[37]

The recommendations of the Johnston Committee Report should be adopted that neither colour nor "texture" should be explicitly referred to in the definition of protectable subject matter.[38]

(ii) "Applied To" A Utilitarian Article

The words "applied to" have been objected to particularly in reference to features of shape or configuration being applied to an article.[39] The Johnston Committee believed that a definition of industrial design which referred to features of appearance "applied to" an article was particularly inappropriate for a design copyright system thus it proposed to modify the definition by referring instead to features of appearance "of" an article.[40] However the Committee went on to note that under the existing U.K. design registration system where the registration defined the scope of the protected design (as would be the case under our recommended system), "...it does not matter very much whether design means 'features of an article' or 'features applied to an article,' since the two-dimensional representations of the design can be regarded as representing the features of the design according to either phrase."[41]

The retention of the reference to features "applied to" an article is recommended because it stresses the fundamental distinction between the features of the design which may be protected, as opposed to the article itself which cannot be protected as part of an industrial design.

(iii) "Article"

It was recommended above that the definition of industrial design refer to features of appearance applied to a utilitarian article and not merely to an article.[42] Below other aspects of the concept of "article" in the definition of industrial design are considered.

The Johnston Committee suggested that there was a problem with the U.K. legislation definition of industrial design in relation to designs which were pattern or ornament, i.e., basically two dimensional. In the definition the reference to design as applied to "an article" meant that such design had to be registered as applied to specific articles. The Johnston Committee further noted that even when there was a statement of novelty in the registration which referred only to the pattern, it was not clear in an infringement action to what extent the article to which the pattern was applied in the registration was to be considered. Further it wasn't clear what effect that consideration might have on whether infringement would be found in a case where the pattern had been copied by the alleged infringer onto another type of article than that in the registration.

The Johnston Committee proposed to deal with this perceived problem by permitting the registration of designs which were pattern or ornament, "...at large, i.e., as applicable to all articles or a number of articles described in a general way."[43]

The general objective of the Johnston Committee in making this recommendation, i.e., that a registered industrial design which is a pattern ought to receive effective protection when recognizably applied, to whatever type of article, by infringers is desirable. However, seriousness of the concerns of the Johnston Committee is questionable, particularly when there is a statement of originality identifying the pattern as the original feature of the design. The appropriate provisions defining infringement are adequate to give such designs the protection they merit. The ability of the applicant to register variants of the design, before and after registration of the original design under our recommendations ought also to be noted.[44] In general, the concept of industrial design ought not to be cut loose from its relation to specific utilitarian articles, even in the case of pattern and ornament. While in the great majority of instances the application of a pattern to a different type of article may still be readily recognizable as the application of the original pattern (and so be infringement under the usual rules), there may be some extraordinary cases in which this would not be so. The court should be free to consider the article or articles to which the design is applied in the registration in defining the scope of protection for the design as far as is appropriate in the particular case.

In short, the Johnston Committee recommendation is unnecessary, and is of unpredictable and possibly undesirable results in some instances.

A further issue to consider in respect of the definition of "article" in the definition of industrial design is the extent to which parts of articles should be defined as articles so as to permit the registration of industrial designs for parts of articles.

The present Canadian statute does not specify the position in relation to registration of designs for parts of articles, but there are several sections of the statute which imply that a design can be registered only as applied to things which are to be sold as finished articles to purchasers.[45]

The concern with permitting registration to be obtained in respect of designs for parts only of finished articles is that it would result in an undue extension of protection through the industrial designs system. In part, the concern is that permitting registration for parts of completed articles increases the likelihood that the effect of protection will be to extend to the operational aspects of the parts of articles to which the designs are applied.[46] A further concern is that protection granted for the design of a part of an article may extend the protection to similar appearing parts of quite different articles. It would be at least hypothetically possible, particularly under a "monopoly-type" design system (i.e., where it is not necessary to show copying to establish infringement), that a defendant could be surprised by a claim of infringement in circumstances where some part of his article happens to look like the plaintiff's registered design for a part of a very different type of article.

The U.K. designs statute, presumably reflecting concerns about the unreasonable extension of protection through permitting designs to be registered for parts of articles, permits a design to be registered for, "...any part of an article if that part is made and sold separately."[47] The Johnston Committee noted that there had been criticism of this provision as being both uncertain and too narrow.[48] The section has been interpreted, in relation to the separate sale requirement, to mean that the part article bearing the design must have been intended to be sold separately by the proprietor of the design.[49]

The limitation on designs for part articles in the U.K. law has been criticized as wrong in principle.[50] The Johnston Committee recommended that it should be possible to obtain a design registration for a design of any part of an article, including integral parts that are neither made nor sold separately.[51]

Any recommendation on the policy to be applied to the protection of designs for parts of finished articles must take into account the policies to be applied to any requirement as a part of the registration process for a statement of originality, and to disclaimer practice. Under the present Canadian legislation the Industrial Design Office permits the filing of descriptions of designs which indicate which specific features are believed to be original features of the design and which may also indicate which features the applicant considers most important.[52] Further, the applicant may submit a drawing of the article bearing the design in which the features of the design are highlighted by encircling or other such means.[53] This practice is similar to that followed in the U.K., and in relation to which the Johnston Committee expressed uncertainty about whether those parts of the article not referred to in the statement of novelty and not highlighted in the drawing were effectively disclaimed. If such parts of the article can be totally disclaimed in such a fashion, applicants can achieve by this method the same result as if the statute expressly permitted the registration of a design for any part of an article. The Johnston Committee's view, consistent with its view on registration of designs for parts of articles, was that applicants should be permitted to disclaim portions of the representation of the design filed with the application for registration.[54]

An overly broad power to register designs for parts of finished articles, and to achieve the same result through disclaimers, does pose dangers in the undue extension of industrial design protection. The dangers occur if the law for designs for parts and disclaimers is drafted in such a way that the scope of protection for the design for part of an article is considered entirely apart from the finished article, at least if the part is only sold in the form of the finished article. In considering the appropriate scope of protection for a design for part of an article, it may be entirely proper not to look to some specific design for the remainder of the entire article as an aspect of the registered design for the part article in assessing whether infringement has occurred in a particular instance. However, in assessing whether there is infringement of the design for part of an article, it should be considered that the design is for a part of a larger article, and that consideration should be permitted to influence the assessment of whether there is infringement, at least when the part article is not, or was not intended to be, put on the market for sale by itself.

An example of the type of consideration being suggested is one in which the registered design was for the spout, only of a teapot. [This assumes the law as revised permitted the registration of a design for any part of an article, or that the same effect could be achieved by registering a design for a teapot and disclaiming all but the design for the spout.] Teapot spouts are not sold separately, and if there is a case of infringement it would have to occur in the context of an infringing spout as a part of a teapot. It might be that the defendant's spout, alone, looked much like the registered design for the spout, but that the overall effect of the teapot as sold by the defendant was such that the similarity of spouts was not readily evident to typical purchasers of teapots and further that the defendant's teapots were such as not to be readily confused by teapot purchasers with any teapot bearing the registered spout design that had been put on the market by the plaintiff.

The function of the industrial design system is to protect the proprietor of the design against others misappropriating the design in the marketplace. If the design for which protection is claimed is for a part of an article that is not intended to be sold by itself, and also composes such a minor part of the finished article which is sold that it plays no significant role in determining the appearance of the finished article for typical purchasers and users of that article, then there is nothing which ought to be protected under the industrial design system. Granting protection for such designs for part articles would appear to be merely providing a means by which the proprietors of such designs could harrass competitors.

Designs for parts of articles also tend to present greater problems in relation to design protection extending to the operational aspects of articles.[55] One response to this observation is that the legal rules proposed to exclude industrial design protection applying to operational aspects of articles would apply to designs for parts of articles and would exclude designs for parts of articles applying to operational features.[56] Given the difficulties, however, that have been and are likely to be encountered in applying the provisions excluding application of industrial design protection to operational features, it does not seem wise to extend industrial design protection to designs for parts of articles any further than there are good reasons to do so.

It is recommended that the revised statute specify that industrial designs can be registered only in respect of articles or parts of articles that are intended to be sold as separate items.[57] The reference to sale as a separate item focuses the test of the availability of a separate design registration where it ought to be focused, i.e., on the marketing of the articles bearing the design. The present U.K. statute requirement that the part article must be made separately as well as sold separately is, strictly speaking, unnecessary in respect of a test that is to focus on the actual marketing of the design. Any part of an article that is sold as a separate item will, at least in its final stage of manufacture, have to be made as a separate item also.[58] However, it is possible that the reference to "made separately" in the statute may make the meaning of the section clearer, by emphasizing that designs are to be registrable only for parts of articles that are sold as separate items.[59] Consequently, consideration should be given to drafting the section permitting registration of industrial designs for parts of articles in a form which refers to parts of articles which are intended to be made and sold as separate items.

(iv) "Any Industrial Process or Means"

The current U.K. statute definition of industrial design refers to features of appearance "applied to an article by any industrial process or means". A similar phrase appears in the Canadian Copyright Act, s. 46 which excludes industrial designs from copyright protection by referring to "patterns to be multiplied by an industrial process". Above the inappropriateness was noted of the reference to industrial processes as a criterion by which to define industrial designs and to distinguish them from other types of intellectual property.[60] As in the Johnston Committee Report[61] and the Franki Committee[62] Report it is recommended that the definition of industrial design contain no reference to industrial processes or means.

(b) Content of the Application for Registration

The present Canadian statute requires the applicant to deposit a "drawing" and a "description" of the applied-for design with its application.[63] The revised statute should require the filing of a representation of the design which should expressly be permitted to be in the form of a photograph.[64] The statute should not require a "description" of the design, but rather should require a "statement of originality." The statute should require a statement that together with the representation indicates what the design is and identifies in which features of the design there is claimed originality.[65]

Unlike the Johnston Committee,[66] it is not recommended here that the statement of originality should permit the disclaiming completely of aspects of the article to which the design is applied as not being a part of the design. The statement of originality would focus attention on the aspects of the design that were claimed to be original and such aspects would receive critical weight in any case of alleged infringement. However, for the same reasons that the proposal that it be possible to register designs for any part of an article that is not sold separately has been rejected,[67] it should not be possible to achieve that same result through disclaimer. As noted, the appropriate weight to be given to those parts of the article not claimed as original in the statement of originality in many cases may be simply that in assessing whether there is infringement in any particular instance one must take account of the fact that the design is for part of an entire article and assess the likelihood of visual confusion of the protected design and alleged infringing design in that context.

5. Procedure for Registration

(a) Opposition

Under the present Canadian industrial design statute there is no formal procedure for opposition to proposed design registrations, i.e., a procedure by which interested members of the public may file objections to the registration of a particular design before it is finally registered. Given that the proposed revised industrial design system would offer protection only against copying and that protection for features dictated by function or methods of construction are excluded, the costs and delays in securing registration necessitated by a formal opposition system would not be justified,[68] and it is recommended that there be no such system.

A related issue is whether there ought to be some other formalized process, short of a full opposition procedure, by which members of the public may protest the registration of a design. The scope for such a procedure is limited as the recommendation concerning publication of applications means that most applications will be registered before they are published. It has been the experience under the present

Canadian patent statute that despite the fact that applications are not published before a patent issues, protests against the issuance of particular patents are sometimes received. The revised industrial design legislation ought to authorize the Industrial Design Office to receive protests and to apply them against any application as far as they may be relevant.[69]

(b) Abandonment of Applications

Experience under the present statute has indicated the need for the Act and regulations to provide than an application for registration is deemed to be abandoned if the applicant fails to respond to an Office action within a specific period.[70] We recommend that the revised statute contain an appropriate provision deeming applications to be abandoned when applicant fails to respond to Office actions within a specified time.[71]

(c) Divisional Applications

A revised Industrial Design statute ought to provide for "divisional" applications, i.e., cases in which the Office finds an application contains more than one design and requires the applicant to file separate applications for each such design. In such instances the statute should provide that any additional divisional application that so results would be deemed to have the same application date as the original application.[72]

(d) Amendments

The revised industrial design legislation should provide for the making of regulations to permit the amendment of applications, including the representations and statements of originality, before a design is registered.[73] The statute should make it clear that such amendments should be permitted only within the scope of the design as originally disclosed in the application. In addition the statute should provide that the Registrar has a discretionary power to approve any such amendment and a power to impose such conditions on any amendement as the Registrar thinks fit.[74]

There should also be a provision in the statute permitting the correction of clerical errors in an application, other instruments or in the registration of a design.[75] Such corrections should be possible either upon application of an interested person to the Registrar or upon the Registrar's own initiative. The statute should provide that when the correction of such a clerical error may affect the rights of any person, notice and an opportunity to make representations must be given to such person.[76] Further, the statute should provide, as does the present industrial design statute, that clerical errors shall not be construed so as to invalidate any instrument under the statute.

There should be no provision in the revised statute for the amendment of the statement of originality after a design has been registered other than that inherent in the proposed provisions for the correction of clerical errors and for the addition of variants to already registered designs. Johnston Committee noted that a provision permitting other amendments after registration would not be in the public interest.[77] If there were such a provision there would be a risk that applicants would be tempted to file unreasonably broad applications (e.g., designs which were operational in some respects), believing that if they were registered in that form and later faced a threat of an action to invalidate the design registration, the registration could be amended. Particularly given the shorter period of protection compared with patents, and the limitation of design protection to ornamental features, the necessary complexity that would be introduced into the statute by such a provision cannot be justified.[78]

The present statute permits applications to the Federal Court to vary a registered industrial design "in any particular not being an essential particular."[79] It is not clear that there is much scope for such amendments beyond those which could be corrected as clerical errors. If the section were retained, it should be amended to exclude any amendment in the representation or statement of orginality.[80] Once such an amendment to the present statutory provision were made it becomes even more dubious that there would be any significant scope for amendments under the section beyond those possible under the provision for clerical errors. Consequently, we recommend that the provision be deleted from the revised statute.

(e) Registration of Designs For Sets

The present Industrial Designs Rules, Rule 11(1), (2) deems a design to be used as a model to be multiplied by an industrial process within the meaning of s.46 of the Copyright Act if the design is intended to be reproduced in more than fifty single articles unless the articles form a "set" as defined in the Rule. The Rule defines "set" as a, "number of articles of the same general character ordinarily on sale together, or intended to be used together, all bearing the same design with or without modification not sufficient to alter the character or not substantially affecting the identity thereof." The number of articles on which it is intended to reproduce a design will not play any role in establishing the relationship between copyright and industrial design protection under our proposals made above, and therefore the definition of "set" will not be needed for that purpose.

However, the question remains whether the statute ought to provide that a design may be registered in a single registration for a set of articles. The Johnston Committee referred to, "...the purpose of set registration, namely, registration for a number of articles at a reduced fee because the designs of them are so similar that the Registrar's search is simplified."[81] This rationale applies to the revised industrial design system proposed here and therefore it is recommended that the revised statute provide a definition of "set" like that now in Rule 11 and further provide that regulations may be made permitting the registration of a design for a set of articles so defined.

It has been observed that at times it is difficult to determine whether a particular group of articles constitute a set under the definition, particularly when the design is in three dimensions.[82] As the Johnston Committee has noted, the basis for providing for registration of a design for a set at a reduced fee is that the Industrial Design Office saves work as compared with the registration of a similar number of different designs not forming a set. Consequently, the definition of "set" for these purposes can be no broader than will permit real economies in the process of registration on the part of the Industrial Design Office. Consequently, it is recommended that there be no change in the present Rule 11 definition of "set".[83] Further, the statute ought to provide that the decision as to whether particular articles constitute a set is one exclusively for the Registrar of Industrial Design and that such decisions are final and not subject to appeal to the courts.[84] Finally, the statute ought to contain a provision like s.44(2) of the U.K. act which makes it clear that "...articles registered as a 'set' are protected in all respects as though each individual article were registered."[85]

(f) Registration by Classes

The present Canadian statute does not provide, as the U.K. legislation once did, for registration and protection by classes of articles. The adoption of any form of statutory registration and protection by classes is not recommended.[86]

However, this recommendation is not intended to discourage the Industrial Design Office from continuing the administrative practice of classification for the purposes of indexing registered designs to facilitate searches of the register.

(g) Registration, Generally

Above it was recommended that the revised statute require the Industrial Design Office to reject applications that on their face are not original[87] and which contravene the proposed prohibition against re-registration of designs by the same author or proprietor.[88] It was also proposed that the statute expressly require the office to conduct such searches of the prior art as it deems necessary to make decisions on such rejections. In addition, it was recommended that the Office be directed in the revised statute to examine each application for proper subject matter for industrial design protection, in particular for the limitation to features of appearance and the exclusion of operational features.[89]

The revised statute, however, should not be drafted so that it appears to limit the power of the Office to reject application to those grounds only, and appears to permit it to conduct searches for those purposes only. While the statute should require the Office to search for, and to reject applications for lack of originality only on their face, it should expressly permit the Office to conduct any search it deems fit[90] and to reject applications for any lack of originality as defined in the proposed statute.[91]

Ordinarily the Office would examine and reject only for lack of *prima facie* originality, but if it acquired evidence, for example through a protest[92] that an applied-for design was a copy of another's earlier, original unpublished design, the Office ought to have the clear power to reject the application as unoriginal. Similarly, the Office ought to have a broad power to reject an application because it does not constitute an industrial design as defined in the revised legislation.

Above it was also recommended that a design be barred from registration if it had been published anywhere by the proprietor before the application for registration in Canada.[93] The form of application ought to require an applicant to state that the design has not to its knowledge been published by it or a related proprietor. While the Office would ordinarily conduct no search or examination for such publication, if it acquired clear evidence of such publication in the course of the prosection of the application, the Office ought to have statutory authority to reject an application on that basis.

A further basis upon which a design might be improperly registered is if a person who was not recognized by the statute as one entitled to register secured registration.[94] An applicant ought to be required to state the facts upon which it bases its claim to be entitled to register a design at the time of application.[95] While the Office would not ordinarily examine in depth an application for entitlement to secure registration, it should have a statutory power to reject an application when it has clear evidence that the application has been filed by a person who is not entitled to apply under the statute.

The revised statute should also contain provisions making unregistrable designs that are likely to mislead the public in a material respect as to the character, quality, quantity or composition; geographic origin; or mode of manufacture, production or performance of the articles to which the design is applied in the application for registration.[96] In addition the revised statute should prohibit the registration of any industrial design which contravenes the prohibitions in s.9 of the Trade Marks Act.[97]

In summary, the statutory power of the Industrial Design Office to refuse applications for registration should be broad enough to include at least all of the grounds summarized above upon which an industrial design ought not to be registered.[98]

It is recommended that the revised statute provide that the burden of establishing an entitlement to secure an industrial design registration under the statute be on the applicant, rather than there being a burden on the Industrial Design Office to establish that the applicant is not entitled to registration.[99]

The statute ought to provide that applications for registration shall be made on a form of application to be prescribed by regulation. Some of the recommended contents of such an application have been noted above.[100]

The statute should continue to provide, of course, for the existence of the register, in a form to be prescribed by regulations, that it is open to public inspection and that copies of entries in the register can be obtained upon the payment of a prescribed fee.[101]

The statute should continue to provide that refusals to register by the Office can be appealed exclusively to the Federal Court.[102]

The above material is not intended to provide a complete description for the process of registration under the revised statute. However, recommendations have been made concerning the major elements of that system and concerning certain aspects of the registration procedure that have proved troublesome under the present statute. Reference to the above recommendations and to the experience with the present industrial design registration system as well as to the registration systems in other areas of intellectual property should permit the drafting of a complete system for registration.

6. Summary of Recommendations

(a) Statutory Definition of Design

1. The definition of industrial design should define industrial designs as features of shape or configuration and pattern or ornament applied to a utilitarian article, and should not define industrial design as the general appearance of utiltarian articles.

2. Registration should not be permitted for industrial designs in the form of pattern or ornament as applicable to all articles, but such designs should continue to be required to be registered in respect of specific types of articles.

3. Registration should be permitted for designs for parts of articles only if such parts are intended by the proprietor of the designs to be made and marketed as separate items.

(b) Registration: Substantive Rules and Procedure

1. Registration of industrial designs should be required as a condition of protection under the revised legislation.

2. The legislation should require an examination of each application by the Industrial Design Office for *prima facie* originality and for proper subject matter, *i.e.,* that the design is solely for the appearance of an article, that it has an ornamental character, and that it does not extend to operational features (which include function in use and methods or principles of construction or manufacture).

3. The revised statute should permit the Industrial Design Office to reject an application for registration if for any reason the applied-for design is not original as defined in the statute.

4. The legislation should require the Industrial Design Office to carry out whatever search of the prior art it deems

necessary to perform the examination required in recommendation 2, above, and also authorize it to carry out any other search it deems fit.

5. There should be no citation of prior art on the face of registrations by the Office in respect of which the registered design is not novel as has been recommended elsewhere.

6. A design should be deemed not original and therefore unregistrable if,

(a) it is the same as, or differs only in such modifications or variations not sufficient to alter the character or to affect the identity of a design for the same or any other article by the same author which has been previously registered, otherwise than as a result of a breach of confidence, by, on behalf of, or with the consent of the author or any proprietor thereof, or

(b) it is the same as or differs only in such modifications or variations not sufficient to alter the character or to affect the identity of a design for the same or any other article which has been previously registered by, on behalf of, or with the consent of the same applicant or predecessor in title of such applicant,

and the Industrial Design Office should be required by statute to conduct a search as it deems fit, and to examine each application for contravention of the above requirements.

7. The statute should contain clear authority for the Industrial Design Office to reject applications for registration of designs for any reason that such designs might not be registrable under the statute.

(c) Form of Application for Registration

1. An application for registration should be required to contain both a representation of the design and a statement of orginality.

2. The statute should require a statement of originality sufficient to define with reference to the representation the design for which originality is claimed.

3. The express disclaimer of features as not being a part of the design should not be permitted, but the statute should require the identification of those original features which are claimed to constitute the design, and permit the

identification of features believed most important to the design.

4. The form of application should require applicants to state that the design for which registration is sought is not to their knowledge unregistrable for the reasons stated in recommendation B.6, above.

5. The statute should require that applications be submitted in the form prescribed by regulations, and the prescribed form should, inter alia require a statement that the design has not been published by the proprietor or a related proprietor, and require a statement of the facts upon which the claim to be entitled to register is based.

(d) Procedure

(i) Onus

The statute should stipulate that the burden of proof is on the applicant to establish that it is entitled to a registration rather than the burden being on the Office to establish that the applicant is not entitled to a registration.

(ii) Register

The statute should stipulate that a register in a form to be prescribed by regulations should exist, which is open to public inspection and from which copies of entries may be obtained on payment of a prescribed fee.

(iii) Opposition

(a) There should be no formal opposition procedure in the revised statute.

(b) the revised statute should authorize the receipt of protests against the registration of particular designs, and permit the application of such protests as far as may be relevant to the decision on registration by the Design Office.

(iv) Abandonment

The statute should provide that an application for registration is deemed abandoned when applicants fail to respond to an Office action within a specified time.

(v) Divisional Applications

The statute should provide that when the Design Office finds an application contains more than one design and requires that the application be severed, the applicant may file additional applications for the design so severed which applications shall be deemed to have the same application date as the original application.

(vi) Amendments

(a) The statute should permit the applicants to amend applications before registration but only within the scope of the design as originally disclosed in the application. The Registrar should be given a discretionary power to approve such amendments and a power to impose such conditions on any such amendments as the Registrar thinks fit.

(b) The statute should provide for the correction of clerical errors in applications, other instruments under the act and in registrations upon the application of any interested person or the Registrar. When any such amendment may affect the rights of any person the statute should require that notice be given to such person who must receive an opportunity to make representations prior to the making of the amendment. The statute should provide that clerical errors should not interpreted so as to invalidate any instrument under the statute.

(c) There should be no provision for the amendment of a design registration other than that for clerical errors and that which permits the addition of variations of the unregistered design.

(vii) Registration of Designs for Sets

The statute should permit the making of regulations to permit the registration of designs for "sets" of articles, where "set" is defined in the statute as it is now defined in Rule 11 of the Industrial Designs Rules. The statute should provide that decisions as to whether a group of articles is a set shall be made by the Registrar and are not subject to appeal. Further the statute should provide that the design for each article in a registered set is protected under the statute as though it were registered individually.

(ix) Registration by Classes

There should be no statutory requirement of registration and protection by classes of articles.

(x) Appeals

There should continue to be appeals from a refusal to register by the Office exclusively to the Federal Court.

7. Footnotes to Chapter 5

1. Industrial Design Act, RSC, 1970, C.I-8, ss. 9,3,5,7.

2. This involves assessing whether the applied-for design is for particular appearance of an article of manufacture (as opposed to the article itself), whether the design is dictated by the functions of the article, and whether it embodies a process or principle of construction. See above, Ch. 1, text after note 4.

3. See above, Chap. 3, text at note 9.

4. Board of Trade, Report of the Departmental Committee on Industrial Designs. (1962, U.K. Cmnd. 1808) ("Johnston Committee Report") p.17.

5. Johnston Committee Report, Supp note 4, pp. 18-19. Copyright and Designs Law, Report of the Committee to Consider the Law on Copyright and Designs (1977 U.K. Cmnd. 6732) ("Whitford Committee Report") p. 51, para. 199. "..It is unrealistic to expect designers to register all their designs, particularly abroad and in more than one country. The great advantage of copyright internationally is simply that it is automatic", Reform of the Law relating to Copyright, Designs and Performance Rights, A Consultative Document (1981, Cmnd. 8302) ("UK Consultative Document"), p.7.

6. Our impression is that registration under the present Industrial Design Act has been made a relatively expeditious process. The Office seeks to register designs within 30 days of the receipt of an application if there are no deficiencies in the application.

7. Emulation of others' designs is a normal, desirable and often necessary mode of competion. See above, Chap. 2, text after note 48.

8. Cornish, W.R. Cumulative Protection For Industrial Designs (1973), 8 UBC law Rev. 219, p. 244 points out that without registration it would be difficult to establish if protection existed as one would need to find such facts as who was the designer, the citizenship and residence of the designer when the design was made, and when and where the design was first published. In addition, where a person had done a variation of an earlier design, he would have difficulty knowing whether his design was an original "fair follower" or was an infringing copy of the original design, and he would need to discover what, in fact, was the original

design, and what were later variants of that design, from which the person may have derived his design such that it would not constitute an infringement of the original design.

The Johnston Committee Report, Supra note 5, p. 31 notes that there would be difficulties in determining what designs were protected because, given the nature of many designs, protected original designs would often be very similar to designs in the public domain.

Roy Jackson recommended that his proposed Copyright Design Act involve compulsory registration in order to identify the design for which protection is claimed. Jackson, Roy V., "A New Approach...," (1956) 34 C.B.R. 369 at 387.

9. See below, Chap. 8, text at notes 4-7 and Chap. 7 after note 142.

10. Paris Convention, (Rome, 1928) reproduced in UNESCO, Copyright Laws and Treaties of the World (1978), Art. 4.

11. Eder, E., "Industrial Designs In the Whitford Committee's Report," C.I.P.A., July, 1977, at p. 483. As a practical matter under an automatic protection system, the proprietor may not be able to produce the original copy of the design at the time of an infringement action as it may have been lost, or altered to make later variants of the design. The necessity of securing registration may result in the making of a record by the proprietor which can be used in a later infringement action to establish the originality of the design. Note that there will be no presumption of originality based on registration if the recommendation made below is adopted, see Chap. 7 after note 128.

12. Johnston Committee Report, Supra note 4, p. 69.

13. Ibid., p. 70.

14. Ibid., pp. 31, 74.

15. Ibid., pp. 39, 70.

16. Ibid., p. 39. The Committee also believed that the original features of certain types of designs such as models of human beings and animals might not be reproducible in a photograph or drawing, Report, p. 32.

17. Above, Chap. 3, text at and following note 37.

18. Above, Chap. 1, text at notes 18-30.

19. Above, Chap. 1, text at notes 37 to 83.

20. Jackson, "A New Approach...," above note 8, at p. 389. Mr. Jackson gave the example of a case in which, "...an applicant wishes to register a textile design, consisting of a pattern printed on silk, when a prior registration by the same applicant is for the same pattern printed on cotton," as one in which there would be no such originality.

21. Ibid., p. 388.

22. The proposal is a response to the concern might be expressed in relation to abandoning a novelty standard for registration, i.e., that design registrations would proliferate and business people would be harrassed by claims of infringement by registered proprietors of designs that in fact were old when registered. See above, Chap. 3., text at note 17.

23. Ibid., p. 389.

24. See below, Ch. 8, for recommendations on term of protection. Earlier registered designs could also be re-registered by persons other than the original registrant. As such later registration would be copied from the earlier registration it would not be original and would therefore be invalidly registered.

25. This recommended provision very closely follows a similar recommendation in the Johnston Committee Report, Supra note 4, p. 74. The reference in the provision to registration with the consent of any "proprietor" (in addition to the author) would ensure that the section applied to the case of an employed designer where the employer will be the proprietor of the design, and to the case of an assignment of the right to obtain registration from the author to a proprietor who then obtains registration.

26. Unlike the Johnston Committee proposal referred to in note 23, this provision would extend to the case in which the same proprietor endeavoured to re-register a design that it had previously registered even where it took an assignment of the second design from a different author than the author of the first design, even in circumstances where the author of the second design had not copied the first design. The same proprietor ought not to be able to register the same design again, even if it is able to find another author who has independently created the design. Such a provision will discourage registrants from trying to find, or to create,

such second authors of previously registered designs. The proposed U.S. design statute, H.R. 4530, 96th Cong., 1st Sess., s.909 (e) prohibits registration of a design that has been previously registered by an applicant or his predecessor in title.

The reference to "predecessor in title" would prevent a registrant from acquiring the right to register a design that it had previously registered from a second author of that same design, and assigning it to another legal entity (perhaps a corporation created for the purpose) on the understanding that the second entity would register it and then license or assign it to the original proprietor.

The provision as suggested in the text would not appear to prevent a registered proprietor from acquiring ownership of a second registration for the same design founded on the work of a second author where the second registration was obtained by another proprietor before the assignment was made to the first proprietor. If it was desired to prevent such registrations, an additional clause would have to be added to the statute declaring invalid any rights in a registered design, where the owner of such rights had previously owned such rights in a previously registered design which was substantially the same. We do not believe that the considerable complexity introduced by such a provision would be justified by the probably very modest gains that would be achieved in preventing registrants from achieving a *de facto* extension of term for a registered design. The very nature of an industrial design system with originality as the criterion for protection is that more than one registration for substantially the same design, provided that they were independently authored, is possible. The recommendation in the text excludes the cases which most obviously tend to defeat the intent of the legislation to provide a limited term of protection for each design registration, *i.e.,* direct re-registration by or through the same author or the same proprietor. Any limitation on other modes of "re-registration" ought to be left to the inherent nature of the design system, *i.e.*, the fact that the public is free to copy any earlier expired design registration.

The recommendation *supra* Chap. 3, text after note 59, for the registration of variants of a registered design would be an exception to the recommendation made here in the text. See also Chap. 3, note 60.

27. See below, Chap. 10 at note 3. For the recommendation of a similar provisions see the proposed U.S. designs statute, H.R. 4530, s. 924, *supra* note 26.

28. See below, Chap. 10 at note 2.

29. See above, Chap. 3, text after note 21.

30. See above, Chap. 3, text at note 11.

31. See above, Chap. 2, note 154.

32. Royal Commission Patents, Copyright, Trade Marks and Industrial Design, Report on Industrial Design (1958), p.17. ("Ilsley Commission Report").

33. See above, Chap. 1. In Chap. 2, note 154 we indicated that under the approach in the U.K. Consultative Document, a distinction between "aesthetic" and other elements would have to be made in any case in the context of assessing possible infringement to ensure that the appearance of the article is protected only so far as it is not dictated by function as is recommended in the U.K. Document.

34. Above, Chap. 1, after note 52.

35. Johnston Committee Report, supra note 4, p. 41.

36. Reference was made above to the doubt that once existed under the Canadian statute as to whether three dimensional designs could be protected, Chap. 1, after note 6. If the statute had contained the phrase referred to in the text there could have been no such doubt.

37. Designs Law Review Committee, Report on the Law Relating to Design, 1st Term of Reference (Gov't. of Australia, 1973) (Franki Committee Report") pp. 5-6 recommended retaining the phrase in the Australian law for this reason, in particular because it had been so interpreted so as to avoid any necessity of applicants classifying their designs as either two dimensional or three dimensional, which could be difficult, e.g., in the case of a raised or engraved pattern on an article.

The Johnston Committee Report, supra note 4, p. 42, could recommend no better phrase.

38. Johnston Committee Report, supra note 4, p. 42. Colour may be relevant to identifying a "pattern," but variations in colour are unlikely in themselves to constitute original designs. See Smith, Kline and French Laboratories Limited's Design Application (1974) RPC 253 (RDAT).

"Texture" has no clear meaning apart from "pattern" and may imply an, "...appeal to the touch rather than the eye." Johnston Committee Report, p.42.

39. Fysh, Russell-Clarke on Copyright in Industrial Designs, 5th Ed. (1974), p.13; Johnston Committee Report, supra note 4, p. 37.

40. Johnston Committee Report, supra note 4, p. 38.

41. Ibid., p. 39.

42. Above, Chap. 2, et notes 17 and 18. See also our recommendation concerning the provision of a rule making power to deem designs applied to specified types of articles to be, or not to be, industrial designs, above Chap. 2, at note 29.

43. Johnston Committee Report, p. 39. To achieve this the definition of "design" was to be altered to refer, in the case of pattern and ornament only, to application to "articles" rather than "an article". The Franki Committee Report, p. 5, did not adopt this recommendation.

44. Above, Chap. 3, after note 59. Registration of the design in respect of several types of articles as variants might allay the concern of registrants in respect of securing an adequate scope of protection, although such multiple registrations would often be unnecessary to achieve adequate protection.

45. Industrial Design Act, supra note 1, ss. 11, 14, 16 and 17. The Industrial Design Policy Guidelines, s. 2.2, indicate that the Office will have concern about designs applied to parts of articles in respect of whether such designs are purely functional.

46. See reference to Industrial Design Policy Guidelines, note 45, above. The smaller the portion of the whole article represented by the part, the less the scope for adapting it to ornamental purposes, and the likelier any design for the part will reflect operational requirements. See below, text at note 55, for further consideration of this argument.

47. U.K. Registered Designs Act 1949, 12, 13 & 14 Geo. 6, C.88, s. 44 (1), "article."

48. Johnston Committee Report, supra, note 4, p. 41.

49. Sifam Electrical Instrument Co. Ltd. v. Sangamo Western Ltd., (1973) RPC 899 at 913-914.

50. *Ibid.*, p. 914, *per* Graham, J. *Johnston Committee Report, supra*, note 4 p. 41.

51. *Johnston Committee Report,supra* note 4, p. 41. The proposed, but not enacted U.S. design statute, H.R. 4530, *supra,* note 24 would permit registration of designs for any part of a useful article, s.901 (b) (1).

The *Franki Committee Report, supra* note 37, pp. 6-7, concluded that to permit registration of designs for integral parts of articles, "...could confer a monopoly which was too broad," and while it recommended not adopting the U.K. statute reference to "sold" separately, it did recommend adopting the limitation that any part of an article must be made separately.

52. *Industrial Design Policy Guidelines,* s. 11.3.

53. *Ibid.*, s. 11.4.

54. *Johnston Committee Report, supra* note 4, p. 51.

55. Above, text at note 46.

56. Above, Chap. 1. The *Johnston Committee Report, supra,* note 4, p. 41, noted, "The more trivial and simple the part the more difficult it will be to establish novelty and originality, and this fact must tend to limit the extent to which this extension of rights [to designs for any part of an article] can be used."

57. Graham J. stated in Sifam Electrical *Instrument Co. Ltd. v. Sangamo Weston Ltd.,* (1973) RPC 899 at 914 that the appropriate interpretation of the "sold separately" test is that it refers to an intention of the proprietor of the design that the parts of articles be sold separately.

The appropriate provision in the statute should use some form of words such as those suggested by Graham, J. *i.e.* "*to be* sold separately" or *intended to be* sold as separate items."

58. The *Johnston Committee Report,* p. 41 observed that any part of an article which becomes a separate item even at the very last stage of manufacture can be regarded as having been "made separately." As the Johnston Committee then notes, "... all articles sold separately must have been manufactured separately," *i.e.*, the requirement of separate manufacture adds nothing to the requirement of separate sale.

59. The reference to made separately would preclude (what would be a rather unlikely to be used device) the use of a

subtrefuge by which an entire article was offered for sale by a series of sales contracts each purporting to sell some part of the entire article. Using such a device it might be argued that each part of the entire article had been "sold separately."

The limitations on the effect of the proposed section are recognized. It will permit the registration of designs for parts of articles in any instance where, e.g., parts are offered for sale as spare or replacement parts. The availability of protection for designs for parts of an article will depend in many cases on the extent to which spare or replacement parts are offered for sale.

60. Above, Chap. 2, text before note 17.

61. Johnston Committee Report, supra note 4, p. 41.

62. Franki Committee Report, supra note 37, p. 7.

63. Industrial Design Act, supra note 1, s. 4.

64. Since the present statute refers to "drawing," doubt has been expressed about whether a photograph meets the statutory requirement. The most appropriate method of clearly permitting photographs to be filed might be to frame the stautory requirement in terms of some neutral word such as "representation" and to provide for a power to make regulations to specify the requirements for a satisfactory representation and in a regulation to expressly permit photographs among other types of representation.

65. The proposal in the text is for a practice that is much like the present practice under the Industrial Design Act. See Industrial Design Policy Guidelines, April 1978, s. II.3, "Description Requirements." That practice would appear to be derived in considerable measure from the practice under the U.K. design statute in relation to the filing of representations of the design and "statements of novelty" as required by Rule 14(2) of The Designs Rules 1949. See Blanco White, Patents for Inventions, 4th Ed., 1974, pp. 328-329. The role of the "description" in present Canadian industrial design practice has been discussed in two Patent Appeal Board decisions: Re An Application For An Industrial Design For A Toy Loader (1976), 36 CPR (2d) 234, at 241 where Blanco White is cited with approval, and Re Industrial Design Registration No. 43273 For A Nutcracker (1977) 45 CPR (2d) 238 at 246.

The history of the development of practice in relation to the nature of the description required under the Canadian statute (generally, from requiring a "complete word picture" of the design to requiring something in the nature of a statement of novelty like that required in the U.K.) can be found by referring, in addition to the above cited material, to: Kirby & Seaby, "The Preparation of Design Application" (1967) PTIC Bulletin, Series 7, Vol. 19, p. 4; Maybee, "The Effect of the Description in Design Registration" (1971), PTIC Bulletin, Series 7, Vol. 28, p. 117; Kirby, "Shorter Design Descriptions (1971), PTIC Bulletin, Series 7, Vol. 28, p. 132; Conway & Delbridge, "Current Canadian Industrial Design Practice" (1973), PTIC Bulletin, Series 7, Vol. 36, p. 502 at 505; Gale & Kirby, "Canadian Patent Appeal Board Decisions" (1979) PTIC Bulletin, Series 8, Vol. 4, p. 152 at 192 - 193.

66. Johnston Committee Report, supra note 4, p. 51. The recommendation was made in relation to practice under the existing U.K. design monopoly statute and the "statements of novelty" required by the U.K. rules.

67. Above, text after note 54.

68. The Franki Committee Report, supra note 37, p. 24, made a similar recommendation for the Australian designs system which does not now have an opposition procedure. The uniform Nordic Design Law does have an opposition procedure, (1971) Industrial Property 223 at 227 (Section 18).

69. As noted above in the text the absence of any requirment of novelty or inventive step for obtaining a valid registration would limit the scope for a protest procedure. However, some protests might be received alleging that an applied-for design was copied from an earlier design or varied only from such a design in insignificant details and so was not original. In addition protests might be received alleging that an applied-for design ought to be refused registration because it applied to operational features.

Given the limited scope for protests, and the uncertainty about their frequency under the revised industrial design system, it would not be appropriate to recommend an elaborate statutory code for protests. Rather there should be a statutory provision which authorized the making of regulations providing for the receipt and disposition of protests. The central requirement in any such regulations should be that applicants be informed of the substance of any protest so far as the Office decides to adopt it and to rely upon it to refuse an application, and also have an opportunity to respond to it. Reference could be made to the proposed codification of interventions in the Working Paper on Patent Law Revision, pp. 236-237, for some ideas as to the content of such regulations although it is doubtful, at least until experience might indicate otherwise, that an elaborate scheme of that nature would be justified in the context of industrial design.

70. Re Industrial Design Registration No. 43273 For A Nutcracker (1977), 45 CPR (2d) 238 at 238-243.

71. The Industrial Design Policy Guidelines, April 1978, s. 6.2, provide that the failure to respond to an Examiner's Report within 6 months will result in an application becoming "inactive."

The revised legislation ought to provide that in the case of such an abandonment all fees paid would be forfeited, unlike the present s. 28 which provides for the return of fees when any design is not registered.

72. Industrial Design Policy Guidelines, April, 1978, s.7.2, provide for divisional applications. This rule of Office practice ought to be given a statutory basis. See Conway and Delbridge, "Current Canadian Industrial Design Practice" (1973), PTIC Bulletin, Series 7, Vol. 36, 502 at 507.

The retention of the original filing date permits the retention of any priority of entitlement to register derived from that filing date.

The Franki Committee Report, supra, note 37, p. 22, made a similar recommendation.

73. The Franki Committee Report, supra, note 37, pp. 21-22 made a similar recommendation. See also Rule 50 of U.K., The Designs Rules 1949.

74. The Franki Committee supra note 37, suggested that amendments should be available if not detrimental to any person, if the Registrar "thinks fit," and on such terms as the Registrar may direct. Op. cit., p. 22.

75. The present Industrial Design Act, supra note 1, s. 20 permits the "Minister" to correct clerical errors. The major substantive changes to this provision proposed in the text are to give the power to make changes to the Registrar and to require notice to, and to give a right to make representations to, persons whose rights may be affected by such changes.

76. U.K. Registered Designs Act 1949, 12, 13 & 14 Geo. 6, c.88, s. 21 (3) has such a requirement. See also Working Paper on Patent Law Revision, p.288, Proposed Patent Law, s. 94.

77. Johnston Committee Report, supra, note 4, p. 52.

78. Ibid., p. 52. The features of the industrial design system noted in the text render the arguments for permitting amendments after grant in the case of patents inapplicable to designs. See Working Paper on Patent Law Revision, pp. 221-223,

79. Industrial Design Act, supra, note 1, s. 23.

80. This is necessary to make the section consistent with the recommendation made immediately above in the text. Such an amendment may not make much, if any, substantive change in the present section as such amendments might most often be viewed as amendments of "essential particulars."

81. Johnston Committee Report, supra, note 4, p. 66.

82. Ibid, p. 65.

83. The Johnston Committee Reportsuggested that the only amendment to the U.K. statute, s. 44(1) definition of "set" (which is virtually identical to the Canadian Rule 11 definition) they could propose was that it should expressly include, "...modifictions or variations which are required to adapt a design to various shapes and sizes of articles in a set...." (p. 66). No recommendation for such an amendment (the Johnston Committee did so only "tentatively") is made as no broader definition of "set" than now appears in Rule 11 is justified. The Johnston Committee's proposed amendment may be already included within the present language of Rule 11, and to the extent that it is not, it ought not to be.

84. The recommendation gives the same result as the present s. 44(3) of the U.K. statute. The Franki Committee Report, supra note 37, p. 18, recommended that U.K., s. 44 (3) be included in the Australian legislation, as did the Ilsley Commission Report supra note 32, p. 32 for Canadian legislation. When the Registrar refuses to permit registration as a set, the applicant will be able to register under the divisional recommendation, above, the design for the separate articles with the same priority date as the original application.

The present Canadian Industrial Designs Rules, Rule 11(3) provides that when there is any doubt whether given articles constitute a set the issue shall be determined by the Commissioner of Patents.

The Johnston Committee Report, supra note 4, p. 66, recommended that U.K., s. 44(3), be amended to permit appeals of Registrar's decisions as to what constitutes a set. That recommendation is not adopted here as the whole basis for the "set" provision is cost saving for the Design Office, of which the Registrar ought to be the final judge.

85. *Johnston Committee Report, supra* note 4, p. 66.

86. The *Franki Committee Report, supra* note 37, p. 123, recommended the abolition of the Australian class registration system.

87. *Supra*, text at note 15.

88. *Supra*, text at notes 23 and 24.

89. *Supra*, text at note 17.

90. See U.K. *Registered Designs Act 1949,*12, 13 & 14 Geo. G, e.88, s. 3(3). The *Johnston Committee Report,supra* note 4, pp. 48-49, recommended the retention of this broad power of search and the *Isley Commission Report, supra*, note 32, p. 26 recommended it be adopted in the Canadian statute.

91. The objective is to avoid any statutory language which appears to limit the power of the Office to reject an application on grounds of lack of originality. See *Commissioner of Patents et. al. v. Goodyear Tire & Rubber Co.,* (1979) 43 CPR (2d) 219 (FCA) for an example of confusion about the Office's power to reject applications in the light of a poorly drafted statute setting out that power. In that case, relying largely on the *Industrial Design Act*ss. 5 and 6 it was argued that the Office could reject applications only if they resembled designs already registered and not, for example if they did not constitute proper subject matter for a design in that they were functional in nature. On appeal, the broader power of the Office to reject applications was upheld.

92. *Supra,* text at note 69.

93. *Supra*, Chap. 4. text at note 17.

94. Below, Chap. 6, text at notes 16-24, 36.

95. The *Franki Committee Report, supra*, note 37, p. 19 made the same recommendation.

96. The proposed prohibition is adapted from the *Trade Marks Act*, R.S.C. 1970, C. T-10, s.7(d). That section may itself not be broad enough to prohibit the use of industrial designs which contravene the prohibitions as it refers to "any description" of wares and designs are not descriptions. Given the doubts caused about the extent of the federal

government's constitutional authority to prohibit such misleading activity through general prohibitions such as that in s.7(d), there must be explicit prohibitions in the Industrial Design Act tied to the process of registration. See MacDonald v. Vapour Canada Ltd., (1976) 66 DLR (3d) 1 (SCC).

97. Trade Marks Act, supra note 96, s.9. That section should be reproduced in the revised industrial design legislation, modified so as to clearly apply to industrial designs, for example: "No industrial design shall be registrable if it consists in whole or in part of, or so nearly resembles in whole or in part as to be likely to be mistaken for (followed by the prohibitions in (a) through (o))." A form of s.9(2) should also be included in the revised design statute.

The proposed prohibition, and perhaps that supra text at note 96, is covered in part at least by the present Industrial Design Act, s.6, "... any design that is contrary to public morality or order." See also U.K. The Designs Rules (1949), S.I. 1949, No. 2368, Rules 24 and 25.

In the context of trademarks the statutory provisions reflect obligations under the Paris Convention, London Revision (1934), reproduced in W.I.P.O., Manual of Industrial Property Conventions, Arts. 6ter, 10 and 10bis. While Art. 6ter does not require Canada to extend its provisions to industrial designs, it appears to be in the interests of Canadian consumers and of fair competition in Canada to do so as far as is appropriate. Arts. 10 and 10bis impose general obligations to prevent unfair competion which would apply to unfair competition through the use and registration of industrial designs. Consequently, the proposal in the text can be seen, at least in part, as giving effect to Canada's obligations under these articles of the Convention.

The proposals in the text refer only to prohibiting the registration of designs. The statute ought also to prohibit the use of such designs, whether registered or not. Given the doubts which may exist as to the scope of the federal power to prohibit the use of such designs, the statute should be drafted so that the section prohibiting use is clearly severable from the section prohibiting registration so that if the validity of the former is successfully challenged, the courts can rule it invalid without affecting the latter.

98. See U.K. Registered Designs Act 1949, supra note 90, s.3(3). The Ilsley Commission Report, supra note 32, p. 26 recommended the adoption of the U.K. provision. The Johnston Committee Report,supranote 4, p.49 stated in respect of s.3(3): "We have considered the alternative that this

subsection should specify the grounds upon which the Registrar may refuse an application. The grounds of refusal are, however, so numerous and detailed that we do not think it would be practicable to specify them." Notwithstanding that the statute might not expressly limit the power of the Office to refuse registrations, there can be no doubt that the courts would so interpret the statute as to limit the power to refuse registrations to that inherent in the statute.

Notwithstanding what is said in the Johnston Committee Report about the U.K. statute, it may be possible to draft a section which on its face seems more limited in the power it gives the Office to refuse registrations and yet which achieves the results recommended in the text. For example, the statute could identify each of the grounds for refusing registration in the statute by some key word, e.g., "registrable" and the section giving the power to refuse registration could give the Office the power to refuse for any reason a design was not "registrable," and also if the design did not constitute an industrial design as set out in the statute.

99. Industrial Design Act, supra note 1, s.6 would appear to place the burden of showing grounds for rejection on the Office. See Working Paper on Patent Law Revision, p. 236 for a similar recommendation in respect of patents. As a practical matter such a section will only have an effect in cases in which, after the applicant and the Office have put forward the cases for and against registration, the matter is still in doubt.

100. Supra, text after note 93, at note 95, after note 24, at notes 63-67.

101. Industrial Design Act, supra, note 1, ss. 3, 21. Copies of entries should be available to anyone on payment of the fee and not just to applicants or registrants.

102. Ibid., s. 22.

CHAPTER 6

PROPRIETORSHIP, ASSIGNMENT AND LICENSING

1. Introduction

The recommendations made in this section largely continue the fundamental principles of the existing law, with modifications designed to remedy some problems which have arisen with the present law. The recommendations as well reflect the principles of the present U.K. designs law which the Ilsley Commission has recommended be adopted as Canadian law.[1] They also reflect the provisions of the present Canadian patent law and proposals that have been for the revision of that law.[2]

The principles of the present U.K. designs law, and of the present and proposed Canadian patent law are much the same in many respects in relation to the issues of proprietorship, assignment and licensing examined nere. However, the statutory language of the Canadian patent law, at least as proposed, is generally to be preferred to the language of the present U.K. designs statute as the former is clearer in its meaning.[3] Furthermore, it would be desirable to have the revised Canadian industrial design statute provisions reflect that of the revised Canadian patent statute provisions in the areas of proprietorship, assignment and licensing as far as that can logically be done. The lack of similarity of the present industrial design and patent law in these areas had led to confusion, and to the loss of rights to industrial designs, in the past.[4] Introducing similarly drafted law in each statute will assist in eliminating this source of confusion. As well, similarity in drafting in these provisions in the two statutes will permit the use of judicial interpretations of one statute to be used in interpreting the other statute and so increase certainty and predictability in these areas of the law.

2. Proprietorship and the Right to Apply for Registration

(a) Present Canadian Law

The present Industrial Design Act does not distinguish between that person or legal entity which is the true proprietor of an industrial design and of any registration for that design, and the persons who ought to be entitled to file an application and to secure registration for an industrial design. The true proprietor ought always to be a proper applicant for registration of a design, of course, but the statute ought not to provide that the true proprietor is the only proper applicant for registration. In some instances it is difficult to determine who is the true proprietor, for example in some cases in which an employee of another person has created the design and it is unclear whether that was done within the scope of the employee's employment. In other cases someone with a primafacie claim to proprietorship of a design but who is not in fact the true proprietor may, dishonestly or mistakenly, apply for, and secure registration of a design. The present statute provides, and the revised statute ought to provide,[5] that an industrial design registration can be invalidated on the ground that a person has secured registration who is not entitled under the statute to secure registration. If the statute provides, as does the present Act, that only the true proprietor can secure registration, the registrations in cases like those noted above can be invalidated. This is an unfair result for the true proprietor as the existing registration will be lost and the design cannot be reregistered as it has already been published,[6] through appearance in the industrial design register if not otherwise.

The true proprietor (including anyone who has a claim to being such a proprietor) clearly has an interest in the statute providing that not anyone can apply for registration of an industrial design. For example, the way in which the procedure for registration is handled by an applicant will determine the quality and value of the registration obtained. Against this interest in controlling the application procedure must be balanced the costs of delays in securing registration, in particular the risk that the design will be published before an application for registration can be filed (which will bar registration under the proposals made above),[7] and the fact that no remedies for infringement can be secured in respect of any period during which the design was not registered.[8] If the filing of an application must be delayed until the true proprietor has finally been identified, the risks of loss occurring for the proprietor in respect of the design from factors like those mentioned immediately above is greatly increased.

The public also has an interest in seeing that industrial designs are registered in the names of the true proprietor of the designs. Knowing who is the true proprietor of a registered design may lead the defendant in an infringement action, or other person who wishes to invalidate the registration, to facts upon which a claim to invalidate can be founded. Further, more accurate data in the register on the true ownership of industrial designs is more likely to lead to useful analyses of the impact of the industrial design system which will permit the development of more effective industrial design policies in the future.[9]

A balance among the interests identified above can be achieved by separating in the revised statute the concepts of who is entitled to apply for registration and of the true proprietorship of industrial designs and registrations. Of course, there must be a procedure for the true proprietor to secure the application or registration in its own name in those instances in which a person authorized by the statute other than the true proprietor has applied for, or secured registration.

The present statute provides that the author of a design is the proprietor and the person entitled to secure registration.[10] The statute further provides, however, that when the author has executed the design for another person for "a good and valuable consideration," that other person is the proprietor of the design and is the person entitled to secure registration.[11] The latter provision appears to apply both to the case of an employed designer who makes the design in the course of his employment in which case the employer would be the proprietor, and to the case of a designer acting as an independent contractor who is commissioned by another to make the design in which case that other would be the proprietor.[12]

The present statute has been interpreted to mean that only the proprietor as defined in the Act may apply for and obtain registration, and that if any other person obtains registration such registration is invalid. Difficulties can arise as noted above in determining who is the proprietor in cases in which employed designers create the design.[13] If an error is made in determining who is the proprietor, the design registration obtained by a person who is not the proprietor will be ruled invalid if challenged in the courts. Under the present law uncertainties in establishing who is the proprietor under the statute in a particular case cannot be resolved by having any person who might be a proprietor assign, prior to registration, any rights he may have in the design to the person who it is desired should apply for registration of the design.[14]

One source of some of the confusion that has arisen over issues of proprietorship and the right to apply for registration under the present law is that the industrial design law is different from the patent law in at least one important respect regarding the right to apply for registration. Under patent law the inventor is always a proper applicant for a patent regardless or the fact that in the particular circumstances the inventor is not entitled to the beneficial interest in the patent. The result is under patent law that a patent cannot be invalidated when the application has been made in the name of the inventor although at the time of application someone else was better entitled to the beneficial interest in the patent. Some of the difficulties that have occurred with the present industrial design law may reflect confusion on the part of those involved who assumed that the design law was like the patent law at least to the extent that the designer would always be a proper applicant for design protection.[15]

(b) Recommendations

(i) General: Proprietorship and the Right to Apply For Registration

Like the present statute, the revised law should provide that *prima facie* the author of a design is the first owner of the design and a person entitled to secure registration of the design.[16] Further, like the present Act the revised statute should provide that when the author is employed and created the design within the scope of his employment, the employer is the first owner of the design and is a person entitled to secure registration of it. Similarly the revised statute should provide that when the author was commissioned by another to create the design then that other is the first owner of the design and is a person entitled to secure registration, unless the agreement of commission provides otherwise expressly or impliedly. While the general language of the present *Industrial Design Act*, ss. 8 and 12(1) appears to be adequate to achieve the results recommended immediately above,[17] it would provide greater clarity in the revised legislation if two specific sections dealing with the cases of the employed designer and commissioned design were introduced.[18]

It is recommended that serious consideration be given to adapting as far as is appropriate the provisions in a revised patent statute concerning proprietorship and the right to apply for registration to the revised industrial design law. Such an approach would reduce possible confusion by applying the same basic rules in the two statutes and tend to avoid some of the problems which have occurred under the present industrial design statute in which industrial design registrations have been invalidated because they had inadvertently been brought in the name of the wrong applicant as proprietor.

The *Working Paper on Patent Law Revision*, for example, recommended that the revised patent legislation provide that patent applications be able to be brought by a list of persons including inventors, employers of inventors when the inventions were made within the scope of employment, and persons who had acquired a right to an invention by assignment or operation of law.[19] A similar kind of provision should appear in a revised industrial design statute referring to authors of designs in place of inventors. The Working Paper goes on to recommend that provision be made in the revised patent statute for a procedure by which persons other than the applicant for a patent who claimed interests in a pending application or an issued patent could apply to the courts for a ruling that the applicant or patentee held the application or patent in trust for such persons.[20] Again, a similar provision should appear in the revised design law.

(ii) Devolution of The Right to Apply for Registration and of Design Registrations

The revised statute should expressly provide, as the present statute does not, for the devolution of the right to apply for a design registration upon the death of a person who has such a right. The statute should also provide for the passing of title to such a right generally by operation of law, and as is recommended below by express assignment.[21] The statute should also provide for the passing of title to a pending application and to an industrial design registration by devolution upon the death of a proprietor and generally by operation of law. The present statute has no such express provisions.

(iii) Co-Proprietors of Rights to Apply for Registration and of Design Registrations

In the case of a design created by more than one person as joint designers or other instances of joint owners of a design, the revised statute ought to provide that one such designer or owner may apply for registration, but that the other designers or owners may later claim rights in the application or registered design.[22] Since proposals for revision of the statute made above recommend that publication of a design prior to application for registration be a bar to registration and that there be no grace period after publication within which an application could still be made,[23] it would be desirable to permit application and registration to be made by one or more than one co-proprietor so as to avoid delays which might arise in coordinating an application by more than one applicant.

The recommendations concerning joint ownership of patents made in the Working Paper on Patent Law Revision ought to be adapted to the revised design statute as far as they are applicable to the joint ownership of industrial design registrations.[24] In particular the revised industrial design statute should provide that when a design is registered in the name of co-proprietors such proprietors shall hold as tenants in common and that each such co-proprietor may exercise all the rights attaching to the design registration including the right to grant licenses under the registration.

(iv) Execution and Seizure Against Industrial Designs

An additional provision that should be adapted for the revised industrial design statute from the recommendations of the Working Paper on Patent Law Revision, preferably in the form such a provision may appear in a revised patent statute, is one designed to introduce an orderly system for the enforcement of judgement debts against industrial property rights.[25]

(v) Rights of Employees In Industrial Designs

Careful consideration has been given to whether to recommend the adoption of a provision concerning special rights of employees in their designs similar to that recommended in respect of patents in the Working Paper on Patent Law Revision.[26] The latter provision would permit an employee/inventor to give notice to his employer which would require the employer to apply for a patent within three months and to commence working the invention in Canada within three years of the priority date of the patent. If the employer failed to take either step all rights to the invention would revert to the inventor. Whatever the desirability of such a recommendation in patent law, it is not recommended for adoption in the revised industrial design statute. The industrial design statute does not apply as does the patent statute to technological advances and therefore does not raise the same issues of fostering the introduction of new technology into Canada. Furthermore, the revised industrial design statute as proposed would provide protection only against copying a protected design and therefore does not present as serious problems as does the patent system in regard to the exclusion of employees from the subject matter of protection. There are not sufficient advantages to employees or to Canadian industry in such a proposal in the industrial design context to justify the complexities and inevitable difficulties that would be introduced by such a provision.[27]

3. Assignment and Licensing

(a) Present Canadian Law

The Industrial Design Act, s. 13(1) provides that registered[28] industrial designs are assignable, "as to the whole interest or any undivided part thereof."[29] Such assignments must be in writing and must be registered, although it has been held that an assignment can be registered at any time after it has been made.[30]

The statute in s. 13(2) permits the granting of exclusive licences of registered designs which licences, it appears, must be in writing and registered.[31] Dr. Fox made the following observation about the present statutory provision concerning licences,

> "The provision in s. 13(2), relating to licences is on its face, an absurdity. By that provision, the proprietor of a design may grant only an exclusive licence. But, by the terms of the section the exclusive licensee is empowered to grant as many non-exclusive licences as he pleases. However, the suggestion has never yet been made that the section operates to preclude a proprietor from granting non-exclusive licences."[32]

Unlike assignments of registered designs it appears that licences can be severed on a geographic basis, that is the licensee may receive the right to use the design in a part of Canada only.[33] Licences may also be able to be severed on other bases, for example, a licence may be granted for some but not all of the articles to which the design may be applied within the scope of its registration.[34]

The present statute has no explicit provisions dealing with the effect of registration on the priorities of rights in cases of conflicting claims to rights in a registered design.

The present statute has no provisions permitting the assignment of rights to apply for registration of industrial designs, nor provisions permitting the assignment of pending applications for registration. The lack of the former type of provision has caused some difficulties, particularly as the present Patent Act does permit the assignment of the right to obtain a patent. It would appear that persons who are familiar with the patent law sometimes wrongly assume that the industrial design law is similar in respect of the power to assign the right to obtain registration which can result in applications for registration being brought by persons who are not proprietors under the industrial design statute so that any registration obtained is vulnerable to being ruled invalid if challenged in court. As noted earlier the lack of the power to assign the right to obtain registration also means that it is not possible to deal with cases of uncertainty about proprietorship of a design (e.g., difficult employer-employee cases) by consolidating all possible rights through assignment in a single person or entity that will then apply for registration.[35]

(b) Recommendations

(i) General: Assignment and Licencing of Interests in Rights to Obtain Registration, Pending Applicatins for Registration and Industrial Design Registrations

The right to obtain registration of an industrial design,[36] a pending application for registration, and an industrial design registration should all be made capable of assignment, licensing, mortgaging or other transfer, in whole or in part, by instrument in writing.[37]

ii) Limitation on Territorial Transfers

The only express limitation on the right to make assignments, licences and other transactions in partial rights to a design, application or design registration ought to be a prohibition on severing rights territorially within Canada. A similar recommendation was made in the *Working Paper on Patent Law Revision* in respect of patents.[38] As is discussed below[39] in the chapter on parallel importation and the exhaustion of design rights, it is not in the public interest to permit the use of industrial design rights to achieve market segmentation and recommendations are made in that chapter intended to limit the use of Canadian industrial design rights to achieve such segmentation in the international movement of goods bearing protected industrial designs. The enactment of the recommendation on exhaustion would also reduce the scope for effective market segmentation within Canada through the exercise of industrial design rights. Similarly, it would not be in the public interest to permit domestic market segmentation through the assignment or licensing of partial geographic industrial design rights.

(iii) Registration and Priorities

The revised *Industrial Design Act* should require that all assignments, licences and other interests transferred or created in pending applications for registration or in industrial design registrations be registered.

The statute should provide for the usual priority of registered interests in a registration system by indicating that any transfer of an interest in an application to register a design or in a design registration is void in respect of a subsequent assignment unless the transfer is registered before the registration of the subsequent assignment. Priority of registration should, however, be subject to a doctrine of actual notice of the prior transfer on the part of the subsequent assignee provided that the prior assignee has applied to expunge the registration of the later assignment.[40] These provisions on priority of registration, as well as protecting those dealing in interests in applications for registration and in industrial design registrations, will also provide an incentive to register such interests.

(iv) Information Gathering

Registration of transfers of interests in applications and registered industrial designs can be important not only as a means for recording and giving notice of interests in applications and registrations for those dealing in such interests, but can also be useful as a source of information about transactions in such interests. The Working Paper on Patent Law Revision indicated the need for the accumulation of information about the use of Canadian patents to provide means of assessing the impact of patent policy.[41] While the absolute need for such information may not be as great in relation to industrial designs because they have less impact on our economy than patents, the need for such information concerning industrial designs does exist in order to make possible better policy analysis and planning in relation to industrial designs.

In order to contribute to the objective of accumulating information concerning dealings with patents the Working Paper on Patent Law Revision made two recommendations in respect of the registration of transactions in interests in patents. First, it was recommended that there be a statutory power to make regulations to prescribe the particulars to be filed upon registration of a transaction affecting a patent or application.[42] Second, the proposed revised patent statute would provide that no consideration would be payable in respect of any transfer and use of interests in patents until the transfer including the prescribed particulars had been registered.[43] The need for the collection of such information is clearly much greater in relation to patents than industrial designs. Whatever provisions are created in a revised patent statute should be determinative of the policy in respect of information gathering for both patents and industrial designs. Consequently whatever provisions of this nature are ultimately enacted as part of the revised patent legislation should be adapted and enacted as a part of the revised industrial design registration.

(v) Licensee Estoppel

The doctrine of licensee estoppel which for example in respect of patents precludes a licensee from disputing his licensor's patent, would appear to apply to licensees of industrial design registrations.[44] The general basis for the doctrine is that since the existence of the industrial design registration is the basis for the licence and the licensee has voluntarily entered into the licence and has so at least impliedly[45] accepted the continued existence of the industrial design registration, the licensee should not be permitted to repudiate the licence by challenging the validity of the industrial design registration.

In the United Stated the doctrine of licensee estoppel has been abandoned, which permits licensees to challenge the validity of the patent under which they take their licence.[46] The Working Paper on Patent Law Revision noted that the U.S. experience does not appear to support the fear which has been expressed concerning the abandonment of the doctrine, that patent owners would become unwilling to grant licences.[47] As the Working Paper also notes[48] there are practical reasons to permit such challenges as a licensee might find itself locked into a licence in situations in which infringers were refusing to take licences and the owner of the industrial property did not bring infringement actions, perhaps fearing that the defendants would successfully challenge the validity of the industrial property in such actions. Since there is also a public interest in seeing invalid industrial property registrations successfully attacked, the freeing of the licensee, who in the circumstances suggested above as well as other instances may have the greatest incentive to challenge validity, also serves the public interest.

There should also be, however, a concern to avoid adopting law which would encourage licensees to engage in unreasonable and harrassing challenges to the validity of the licensor's industrial design registration in order to avoid or at least substantially delay having to comply with obligations to pay royalties and other requirements under the licence. The Working Paper made a proposal for a provision which would require the licensee, when it challenged the validity of the patent, to pay all royalties that came due into court. If the licensee were successful in its challenge, the money would be paid back to the licensee and if the patent were held valid the money would be paid to the licensor.[49]

A provision should be introduced into the revised industrial design law which expressly permits licensees to challenge the validity of the industrial design registration whether or not they have expressly agreed not to do so. The provision should contain a mechanism such as that recommended in the Working Paper on Patent Law Revision (payment of royalties into court), or such other mechanisms as might be adopted in a similar provision in the revised patent statute to remove any incentive to licensees to engage in unreasonable challenges of industrial design registration validity.

(vi) Federal Court Jurisdiction Over Licences

The Working Paper on Patent Law Revision recommended the enactment of a section in the revised patent legislation that would clarify the scope of Federal Court jurisdiction over disputes concerning licences under patents.[50] Since similar doubts could arise in relation to Federal Court jurisdiction over the licensing of industrial designs, a provision similar to any that appears in the revised patent statute ought to be adopted in the revised industrial design legislation. As the Working Paper on Patent Law Revision noted it is desirable to clarify that the Federal Court has concurrent jurisdiction over disputes concerning licences in order to ensure that the parties can seek resolution of those disputes in a single court action in a court with federal jurisdiction that can grant relief on a national basis particularly as many licences are national in scope. The Federal Court already has clear concurrent jurisdiction over cases in which remedies are sought in respect of industrial designs and has exclusive jurisdiction over expungement and variation of industrial design registrations.[51] Such jurisdiction gives the Federal Court the opportunity to develop expertise in industrial design matters and the provision proposed here will contribute to the opportunities to develop that expertise and clarify the right of litigants in licensing matters to avail themselves of that expertise.

(vii) Restrictions on Grants of Rights Under Future Industrial Design Registrations

The Working Paper on Patent Law Revision recommended that a provision appear in the revised patent statute that would prohibit licensors from insisting on clauses in licences which required licensees to grant back to the licensors ownership of any improvements made by the licensees in the patents licensed. The proposal would have permitted licensors to require clauses which would have guaranteed the licensors nonexclusive licences to use any improvement invention made by the liensees.[52]

There would appear to be a more limited scope for similar grant-back clauses in licenced of registered industrial designs. Under the industrial design system proposed in this paper, any variants of a licensed registered design could be registered as a variant only by the owner of the original industrial design registration.[53] Consequently, the situation is unlike that of an invention which is an improvement on an existing patented invention where the inventor of the improvement has the right to patent it under the Patent Act.[54] It is this right of the inventor of the improvement which gives rise to licensors having to insist upon grant-back clauses in order for them to exclude their licensees from retaining such rights. If a patent licensee were to obtain a patent for an inventive improvement of the licensed invention, the patentee of the licensed invention could not use the improvement without the consent of the licensee. In the industrial design situation, under the proposed law, since the licensee could not obtain a registration for any variant of the licensed design it created, the licensor would be free to use the variant without the consent of the licensee.[55]

However, the industrial design and patent situations might be similar to the extent that it would appear that under the industrial design system proposed here the licensor would not have an automatic right to register a variant of its licensed registered design developed by a licensee since the licensor would not be the author of the variant. Therefore, grant-back clauses may appear in industrial design licences to clarify the right of the licensor to register variants of the licensed design.

It would not be necessary or desirable to introduce any form of statutory provision which gave licensees of registered designs the right to register variants of licensed designs they developed or which precluded licensors from introducing clauses in licences which ensured that the licensors would have the right to register any variants of the licensed designs developed by the licensees. Such provisions would tend to cause confusion about the proprietorship of registered designs and are unnecessary. Unlike patents, industrial designs do not give protection to technological developments and threfore there can be no reason to include such a provision in the statute based on the impact of licensing provisions in inhibiting the development of technology. As well, industrial designs are protected only against copying and therefore there is scope for the licensee to develop its own original designs notwithstanding the existence of the licensor's registered designs.

4. Summary of Recommendations

Proprietorship

(a) Proprietorship and the Right to Apply for Registration

1. The revised statute should provide that *prima facie* the author of a design is the first owner of the design and is a person entitled to apply for registration for the design.

2. The statute should provide that notwithstanding recommendation 1, above when the author of a design is employed and created the design within the scope of the duties of his employment, the employer is the first owner of the design and is a person entitled to apply for registration of the design.

3. The statute should provide that notwithstanding recommendation 1, above when the author was commissioned by another to create the design, that other is the first owner of the design and is a person entitled to apply for registration unless the agreement of commission provides otherwise expressly or impliedly.

4. The provisions of the revised industrial design statute should be adapted from the provisions of the revised patent statute and should deal separately with defining those entitled to apply for registration of an industrial design (which should include the author of the design), and with beneficial entitlement to any application or registration.

(b) Devolution

5. The statute should provide that the ownership of a design and the right to apply for registration, an application, and a registration devolves upon the death of the author or other owner of the design and otherwise by operation of law.

(c) Co-Proprietors

6. The statute should provide that when there are joint owners of a design and the right to apply for registration any one or more such owners may apply for registration, but that the other joint owners may later apply to the Federal Court to claim rights in the application or registered design through a ruling that the applicant or registered design owner holds the application or registration in trust.

7. The statute should provide that when a design is registered in the name of co-proprietors such proprietors hold as tenants in common and each may exercise all of the rights attaching to the design registration.

(d) Execution

8. The statute should provide for an orderly system for the enforcement of judgment debts against industrial design rights by providing for the power of the Federal Court to appoint a receiver for all design rights of the debtor upon application of any person with a judgment debt from any court in Canada.

(e) Rights of Employees

9. There should be no provision in the industrial design statute for a procedure by which employee designers could recover the rights to their designs if the employer/proprietor of such designs failed to apply for registration or failed to work the design registration in Canada.

Assignment and Licensing

(a) General

10. The right to apply for registration, a pending application and a registration should be capable of transfer in whole or in part by assignment, licence, mortgage or other transfer by instrument in writing.

(b) Limitation on Territorial Transfers

11. The severing of industrial design rights territorially within Canada ought to be prohibited.

(c) Registration and Priorities

12. The statute should require all transfers of applications and registrations to be registered.

13. Any transfer of an interest in an application or registration should be void against any subsequent assignment unless the transfer is registered prior to the subsequent assignment unless the subsequent assignee has actual notice of the earlier transfer and the transferee has applied to expunge the registration of the later assignment.

(d) Information Gathering

14. Any provisions which appear in the revised Patent Act permitting the making of regulations stipulating information to be filed about registered transfers and limiting the rights to collect remuneration for transfers and use of designs for failure to file such information ought to be adapted and included within the revised industrial design legislation.

(e) Licensee Estoppel

15. The doctrine of licensee estoppel ought not to apply to industrial designs, however, the procedure by which licensees challenge the validity of the licensed design registrations ought to ensure that licensees receive no unfair advantages, for example by requiring that all royalties due be paid into court during the litigation challenging the registration.

(f) Federal Court Jurisdiction Over Licences

16. The statute should give clear concurrent jurisdiction to the Federal Court over disputes involving licenses and other interests in industrial designs.

(g) Restrictions on Grants of Rights Under Future Industrial Design Registrations

17. There should be no limitations on the power to grant rights under future industrial design registrations in the revised industrial design statute.

5. Footnotes to Chapter 6

1. Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs, Report on Industrial Designs (1958), "Ilsley Commission Report"), pp. 26, 29.

2. Working Paper on Patent Law Revision (1976), Ch. 7.

3. It is assumed that a revised statute will be enacted that, while it may not reflect the language of the Proposed Patent Law (1976), will represent a carefully drafted set of provisions embodying many of the principles of the Proposed Patent Law which generally continue many of the principles of the present law in the areas dealt with in this chapter.

4. See below text at note 13, and note 13.

5. See below Ch. 9, text at note 5.

6. Supra, Ch. 4, text at note 17.

7. Ibid.

8. See below, Ch. 7, after note 142.

9. See below, after note 40.

10. Industrial Design Act, R.S.C., 1970, c. I-8, s. 12(1).

11. Ibid., ss. 12(1), 8.

12. See Fox, Canadian Law of Copyright and Industrial Designs, 2d Ed. (1967), pp. 673-674 re employees, citing Equator Mfg. Co., Ex Parte Pendlebury, [1926] 1 D.L.R. 1101 (Ont. S.C.) and Renwal Mfg. Co. Inc. v. Reliable Toy Co. Ltd., [1949] Ex. C.R. 188, 9 C.P.R. 67.

See Fysh, Russell-Clarke on Copyright in Industrial Designs, 5th Ed. (1974), p. 57 describing the U.K. Registered Designs Act 1949, 12, 13 & 14 Geo. 6, c. 88, s. 2(1), which refers to the designer executing the design for another "for good consideration," as applying to both employed designers and those "specifically paid to produce the design."

13. Renwal Mfg. Co. Ltd. v. Reliable Toy Co. Ltd., et al., supra, note 4. Practical difficulties can arise in assessing whether a design was created within the scope of an employee's employment which determines whether the employer or employee is the proprietor.

14. See below text at note 30. Melnor Mfg. Ltd. v. Industrial Products Ltd. (1968), CPR 212 (Ex. Ct.), (1970) 62 CPR 216 (SCC).

The present statute also makes no provision for the case of the death of an author of a design before the author has applied for or received registration for the design. It has been suggested that in such circumstances the right to register the design may be lost. Melnor Mfg. Co., supra, Ex. Ct. per Noel, J. at 223-224.

15. See Renwal Mfg. Co. Inc. v. Reliable Toy Co. Ltd. et al., supra, note 12; and Melnor Mfg. Ltd. v. Industrial Products Ltd., supra, note 14. The problems of confusion of patent and industrial design procedure are compounded by the fact that many applications for Canadian industrial design registrations originate in other countries. For example, confusion can arise when a U.S. company follows the practice of having its employee/designer apply for a U.S. design patent and then has the employee assign the application to the employer and then endeavors to follow the same procedure in Canada in respect of an industrial design application.

16. It is not suggested that the statute contain any definition of "author." The present Act contains no such definition nor do the design statutes of other countries, e.g., the U.K. and Australia, nor does the copyright legislation of Canada and most other countries. Experience indictes that the lack of such a definition has not presented any difficulties that are likely to be eliminated if a definition were introduced. The risk in introducing a definition, particularly where there are no, or limited, precedents to draw upon from other jurisdictions is that the particular definition chosen may be interpreted so as to result in an inadvertent and undesired limitation on the concept of author in the statute.

Under the present Canadian statute it has been suggested that the definition of author can be derived in part from examining the patent cases dealing with the determination of who is the first inventor of an invention. See Fox, supra note 12, p. 674. In general the author under the present law is the person who conceives the design, in particulr those elements of the design which give it novelty, and who puts the design into a visible form. See Fysh, supra note 12, p. 56.

Since under the proposed revised law the design system would provide protection only for the ornamental aspects of appearance, the cases dealing with defining authorship of artistic works under the copyright law may be most relevant to defining authorship under the revised design statute. Those cases stress that the author is the person who is directly responsible for causing the work to assume a particular, visible material form. See Kantel v. Grant, [1933] Ex. C.R. 84.

It would appear that the present Canadian Industrial Design Act supra note 5 would not include as an "author" one who had discovered a design created by another in a foreign country and had been the first to introduce that design into Canada. See Ch. 3, above, text at, and note 9. It is recommended that the concept of author in the revised legislation not include such a person as an author of a design registrable under the statute.

17. See text at note 2, above.

18. The Designs Law Review Committee, Report on the Law Relating to Designs, 1st Term of Reference, The (Govt. of Australia, 1973) ("Franki Committee Report"), p. 11, made a similar recommendation proposing provisions, "along the following lines:

(a) Where a person makes for valuable consideration, an agreement with another person for the making of a design by the other person and a design is made by the other person or his employee in pursuance of that agreement, the first-mentioned person is the first owner of the design unless the agreement provides the contrary, either expressly or by implication.

(b) Subject to (a), where a design is made by the author in pursuance of the terms of his employment by another person, that other person is the first owner of the design."

As recommended above in the text at note 3, and further, below in the text, it is recommended that where possible, and consistent with the substance of the recommendations made here, the form of the provisions of the revised Canadian patent statute be adopted for the industrial design statute. The Working Paper on Patent Law Revision recommends provisions by which employers would acquire title to inventions made by their employees while acting within the scope of their employment as employees. See Working Paper, p. 274 and Proposed Patent Law, s. 86(2) (a).

19. Working Paper on Patent Law Revision (1976), p. 213; Proposed Patent Law, s. 30.

The proposals in the Working Paper suggest an improvement over the present patent law, which already exists in the present industrial design law, i.e., permitting the employer to apply for registration directly without the necessity of securing an express assignment of rights from the employee.

20. Working paper on Patent Law Revision (1976), pp. 273-74; Proposed Patent Law, s. 84.

21. The U.K. Registered Designs Act 1949, supra note 12, deals with these and similar problems by providing in s. 2(2) that the right to apply for a design may pass, "by assignment, transmission or operation of law." See below, for assignment.

22. The present Canadian statute makes no reference to applications by joint proprietors of designs. It has been held under the U.K. designs statute that when there are joint proprietors of a design that all the proprietors must join in the application. See Fysh, supra note 7, p. 57 and Fox, op. cit., p. 674 citing Urendenburgs Design (1935), 52 R.P.C. 7.

The proposal made in the text is similar to that made in the Working Paper on Patent Law Revision, p. 213 in respect of patent law.

23. Above, Ch. 4, at note 17.

24. Working paper on Patent Law Revision, (1976), p. 274. Proposed Patent Law, s. 85(1), (2).

25. Working Paper on patent Law Revision, (1976), pp. 282-283. Proposed Patent Law, s. 89A.

The proposed section in the Working Paper provides that no execution or court process can operate against patent rights except as provided in the section. The provision would establish a right for any person who had a judgment debt from any provincial or federal court to apply to the Federal court for the appointment of a receiver in whom all patent rights of the debtor would be vested. The receiver is to exercise or dispose of those rights under the direction of the Court to collect proceeds to discharge the debt. The patentee is to have the right to continue any established use of the patent subject any royalty determined by the receiver.

26. Working Paper on Patent Law Revision (1976), pp. 274-77. Proposed Patent Law, s. 86(3), (4).

27. One aspect of the Proposed Patent Law, s. 86(2) (6), that could be considered for adoption in the industrial

design statute is the limit on the scope of express agreements between employers and employees assigning rights in patents (industrial designs) to employees. Those limitations are that only those inventions "associated with the employment" may be so assigned and that post-employment inventions may be assigned only if made in a period not to exceed twelve months from the end of employment.

If provisions such as those are adopted in the revised patent statute they ought to appear in the revised industrial design statute as well. This would help reduce confusion by not having different rules apply to employees' inventions and industrial designs. Also, if the adoption of such rules would reflect sound policy in patents, since the issues are the same, they also would reflect sound policy in industrial designs.

28. Section 13(1) does not explicitly refer to registered designs, but the requirement that the assignment be registered is an implicit limitation of the right to assign to registered designs. For an example of an invalid assignment of an unregistered design under the present statute see Melnor Manufacturing Ltd. et. al. v. Lido Industrial Products Ltd. (1968), 56 CPR 212; (1970), 62 CPR 216 (SCC), note particularly 62 CPR at 220.

29. "Undivided part" refers to some fractional share of the entire design rights and does not permit division of the rights by kind or type of right, e.g., on geographic lines or by type of product to which the design might be applied.

30. Failure to register at the time of assignment does not, therefore, invalidate the assignment. Melnor Manufacturing Ltd. v. Lido Industrial Products Ltd., (1968), 56 CPR 212 (Ex. Ct.) at 221-222.

31. As to the limitation to registered designs see note 23, above. See also Melnor v. Lido, above, note 23, 56 CPR at 224-225. The writing requirement is in s. 11, the registration requirement in s. 13(3). See Fox, op. cit., p. 675.

32. Fox, supra, note 12, p. 675.

33. Industrial Design Act, supra note 5, s. 13(2). Licences may also be granted for part of the term of protection, s. 13(2).

34. The argument for the validity of such licences is founded on the fact that while the Act does not expressly permit such licensing, it does not expressly exclude such licences.

35. See above, text at note 9, and note 9.

36. The U.K. *Registered Designs Act 1949, supra* note 7, s. 2(2) makes the right to apply for registration assignable and also transferable by "transmission or operation of law." See also the *Working Paper on Patent Law Revision, Proposed Patent Law*, s. 80(1).

37. *Working paper on Patent Law Revision, Proposed Patent Law*, s. 80(1), (2).

38. *Ibid*., s. 80(3).

39. Below, Ch. 7, text after note 86a.

40. *Working paper on Patent Law Revision, Proposed Patent Law*, s. 82(1), (2).

41. *Ibid*., pp. 132, 272.

42. *Ibid*., p. 272. *Proposed Patent Law*, s. 81(3), (4).

43. *Proposed Patent Law*, s. 82(3).

44. For a discussion of licensee estoppel as it applies to patents see Fox, *Canadian Patent Law and Practice*, 4th Ed., (1969), p. 320; *Deller's Walker on Patents*, 2d. Ed., (1973, 1981), s. 655.

45. It is very common to introduce an express clause in a licence agreement by which the licensee agrees not to challenge the validity of a patent or industrial design registration. However, such an obligation will be implied if it is not express in the agreement. See Fox, *supra* note 39.

46. *Lear Inc. v. Adkins* 395 U.S. 653 (1969). See Deller, *supra* note 39.

47. *Working Paper on Patent Law Revision* (1976), p. 280.

48. *Ibid*., p. 280.

49. *Proposed Patent Law*, s. 87.

50. *Working Paper on Patent Law Revision* (1976)p. 281, *Proposed Patent Law*, s. 89. The Working Paper refers to problems concerning the interpretation of s. 20 of the *Federal Court Act*, R.S.C., 1970, 2d. Supp., c.10.

51. *Federal Court Act, supra* note 45, s. 20. *Industrial Design Act, supra* note 5, s. 22.

52. Working Paper on Patent Law Revision (1976) pp. 271, 277-79. Proposed Patent Law, ss. 80(4), 87.

53. Supra, Ch. 3, text at note 57.

54. Patent Act, R.S.C. 1970, c. P-4, ss. 2 "invention," 28.

55. The proposals in Ch. 2, above, text at note 74 would preclude copyright protection from applying to the licensee's variant. As well, it would seem that the variant would lack sufficient originality to qualify for copyright protection.

CHAPTER 7

SCOPE OF PROTECTION AND PROCEEDINGS FOR INFRINGEMENT

1. Summary of Present Canadian Law

(a) Introduction

The provisions of the Industrial Design Act dealing with the scope of protection for registered industrial designs are typical of the entire statute in being incomplete and confusing. The Act does, however, provide protection against the reproduction, publication, and sale or exposure for sale of articles bearing infringing industrial designs.

(b) Reproduction

The Act provides remedies of damages[1] and a criminal prosecution for a penalty[2] in respect of the entire or partial[3] reproduction of a registered design on any[4] article. The infringing reproduction need not be exact, but sufficiently close that it would be recognizable as the registered design.[5] To be infringing, however, such reproduction must be for the purposes of sale and not, for example, for private use.[6] It would appear that there is a defence to an action for damages for the "innocent" infringer who infringes by reproduction, *i.e.*, one who was unaware that the proprietor of the design had not consented to the reproduction.[7]

(c) Sale, Exposure for Sale, Public

The present Act also provides that the remedy of a criminal proceeding for a penalty is available for the sale, exposure for sale or publication of an article bearing an infringing industrial design.[8] The remedy of damages is not available in respect of such activity, however, leaving industrial design owners to rely upon the inadequate and outdated remedy of the criminal penalty.[9] It would also appear that there may be no statutory defence to the action for a criminal penalty provided for the innocent infringer who infringes only by sale, exposure for sale or publication, where "innocent infringer" refers to one who was unaware that the design was registered and/or was unaware that the articles sold or exposed for sale bore an infringing design.[10]

The concept of an infringing publication of an article bearing an infringing design is not defined in the statute. It may include such activities as exposing articles bearing the design for hire.[11]

Importation of articles bearing a registered design not authorized by the design owner is not specifically dealt with in the statute. It may be possible to secure remedies for importation indirectly if it is importation for the purposes of sale, in which case the latter activity would be subject to the remedy of the criminal penalty.[12]

(d) Use

The present statute does not provide that the mere use of an article to which a registered design has been applied without the consent of the owner of the registration is infringement. In this respect the Industrial Design Act is unlike the Patent Act[13] which provides that use of a patented invention is infringement. However, the industrial design statute is similar in this respect to the Copyright Act[14] which does not provide that mere use (other than through public performance or broadcasting) of an infringing copy of a work, e.g., the reading of an infringing copy of a book, is infringement.

2. Recommendations

(a) Copying vs. Monopoly

The revised industrial design legislation ought to provide protection for registered industrial designs only against copying and not against independent, non-copying reproduction as the present statute would appear to do. It is against copying that design owners chiefly need protection,[15] and it is copying that provides unfair competition in that the copyist is able to save the costs of making an original design.[16] Protection in the form of a monopoly over a registered design puts an unreasonable burden on competitors of the owner of the design. When such a competitor has independently developed its own design it is unreasonable that it should be precluded from using that design by the effect of another's design registration. This is so particularly in the light of the limited scope for novelty of design available for many products[17] which will result in later-produced designs being similar to earlier designs even though the former have not been copies from such earlier designs. An industrial design system which gives monopoly protection can create considerable uncertainties and difficulties for businesses that wish to know if they are free to use a design they have developed.[18] Under an industrial design system which gives protection only against copying there is at least one clear answer that can be given to such businesses -- if the design was not copied, its use cannot be prevented by the enforcement of any existing industrial design rights.

A monoploy form of protection such as is given under the Patent Act is not justified by the needs of the designer to recover design costs under the industrial design system. An industrial design does not embody the solution to a particular technological problem,[19] and therefore generally will not require the protracted and costly series of unsuccessful attempts at solving such problems that are sometimes necessary before a patentable invention is developed. Therefore the protection of a monopoly is generally not as necessary to permit the recovery of costs of making an industrial design as it may be in respect of the costs of making a patentable invention.[20]

Furthermore, inventions protected under the patent law may be such that they can be exploited by the first inventor (or other first owner of the invention) without fully disclosing the invention to the public.[21] Consequently, there may be a temptation on the part of the first inventor to exploit the invention secretly rather than securing patent protection which would involve disclosure of the invention.[22] The Canadian patent law provides an effective incentive for inventors to seek patent protection promptly, and thus to disclose their inventions to the public promptly, by providing that a second inventor can secure valid patent protection, despite the earlier invention by the first inventor who is using the invention in secret and has not applied for a patent.[23] The monopoly protection secured by the second inventor is effective to exclude use of the invention, after the grant of the patent, by the first inventor. Thus an inventor who uses an invention in secret, and does not apply for a patent, risks being precluded from continuing to use the invention if a later inventor secures a patent.

Industrial designs cannot be exploited without disclosing them to the public. Therefore there is no need to provide a system of monopoly protection like that under the patent law as an incentive to the early disclosure of designs to the public.

One objection that may be made to an industrial design system which gives protection only against copying is that it would provide inadequate protection because of anticipated difficulties in proving that copying had taken place. This does not appear to be a valid objection. It was noted above that litigation in the U.K. and Canada under existing industrial design legislation has tended to proceed on the basis of proof of copying although that is not necessary to establish infringement under the legislation.[24] That experience does not indicate that there are serious problems in establishing copying in industrial design cases.

Furthermore, others who have studied industrial design protection have been prepared to recommend systems which provide protection only against copying and have concluded that serious difficulties in establishing copying will not be encountered.[25]

Under the present copyright legislation the courts have not had particular difficulties in dealing with the requirment that copying be established in order to find infringement. In circumstances in which direct evidence of copying is not available the courts have indicated that proof of possible access to the protected work by the defendant, and of substantial similarity of the alleged infringing work to the protected work can shift the burden of proof to the defendant to rebut a presumption of copying which may then arise.[26] In appropriate circumstances the same approach would be likely to be used under an industrial design system which gave protection only against copying.

(b) Direct Infringement

(i) Type of Use

The revised statute ought to define infringement of a registered industrial design to include the making[27] of any[28] article bearing the orginal features of the registered industrial design, or features not substantially different therefrom,[29] as defined by the representation and statement of originality contained in the registration,[30] made by directly or indirectly[31] copying the registered industrial design, without the consent of the registered proprietor.

The statute should provide further that it is infringement to sell, hire, offer or expose[32] for sale or hire, or distribute[33] articles bearing infringing copies of a registered industrial design, i.e., copies made in contravention of the prohibition of making or importing articles bearing the industrial design set out immediately above.[34] In addition the statute should provide that it is infringement either to import,[35] or to stock[36] articles, for the above purposes, bearing infringing copies of a registered industrial design.

(ii) Degree of Similarity

The statute should define an infringing copy of a registered industrial design not only as an exact reproduction of the registered design's original features, but also one that reproduces features not "substantially different from" the original features of the registered design. The quoted words appear in the present U.K. designs legislation and appear to have provided a reasonable scope of protection for registered designs under that legislation, both from the perspective of the owner of the registered design and the public.[37]

(iii) Articles to Which Applied

The revised legislation should continue the policy of the present statute which defines an infringing reproduction of a registered industrial design to include a reproduction applied to the type of article for which the design is registered.[38] Above it was recommended, however, that all industrial designs be required to be registered as designs applied to specifid articles.[39] The articles to which the design is applied in the registration set inherent limits to the design as registered and become part of the determination of what the registered design is.[40] Although infringement will be able to be found in cases in which the registered design is applied to types of articles other than those for which the design is registered, the requirement that any infringing reproduction be in fact a recognizeable reporduction of the original features of the registered design or be not substantially different therefrom will prevent an unreasonable scope of protection from being given to registered designs.[41]

The references to "article" throughout the recommendations on the definition of infringement are intended to refer to functional or utilitarian articles, reflecting the proposed definition of "industiral design" as designs applied only to such articles.[42] To be infringement of an industrial design the reproduction must be of the design as an industrial design which means the design as applied to a utilitarian article.[43].

(iv) No Infringement Possible Until Design Registered

The revised industrial design legislation should continue the approach taken under the present statute in which protection does not begin, and therefore infringement cannot occur, until the design has been registered under the legislation.[44]

A possible difficulty may arise, however, in the light of the recommendation made above in this paper[45] that all applications for registration be published seven months after the application or Convention priority date whatever their status at that time. Such a rule could result in the publication of a few applications that were still pending and for which there would thus be no protection under the industrial design statute.

While given the speed with which industrial design applications should be able to be processed the number of such cases ought to be very few, it would nevertheless be desirable to ensure that design owners are fairly treated in such circumstances. Consequently, it is recommended that a provision appear in the revised statute which gives the design owner the right to claim compensation from copyists of the design when a design application has been published while still pending pursuant to the above-mentioned publication requirement.[46]

(v) Innocent Infringers

(a) Introduction

An innocent infringer is one who is unaware that its actions constitute infringement. Canadian and foreign industrial design laws have limited the liability of innocent infringers,[47] and it is recommended that the revised Canadian statute also limit the liability of such infringers.

In defining the scope of the concept of innocence on the part of an infringer several general factors should be noted. First, actual knowledge that infringement has occurred in any particular instance reflects knowledge of both the particular facts and also the applicable law of industrial design. Consistently with general legal principles the recommended provisions for innocent infringement have not treated ignorance of the applicable law as limiting liability, but only ignorance of the relevant facts needed to apply that law.

The second general factor to be considered is whether innocence ought to refer only to the defendant's actual subjective knowledge or whether consideration also ought to be given to constructive knowledge, i.e., what a reasonable person, or what a reasonable person in the particular circumstances ought to know. The recommendations, for reasons outlined below, treat those who infringe by making or importing articles differently from those who infringe by merely selling or otherwise dealing with infringing articles. Innocence for the former would be established only by considering both the actual knowledge and the imputed knowledge (what a reasonable person would know or suspect in the circumstances) of the infringer. For the second type of infringer only actual knowledge would be relevant to the question of innocence.

Further, innocence in respect of infringement can reflect lack of knowledge of one or more of several facts which must be established to prove infringement. Most importantly, there may be ignorance of the existence of the design registration which it is alleged has been infringed. In addition, however, there might also be ignorance of whether the alleged infringing design has been copied from the registered design, or ignorance or a mistaken belief about whether copying took place with the consent of the proprietor of the registered design.

In relation to infringement by making articles bearing a registered design the limitation of liability based on innocence refers only to lack of knowledge of the design registration. By the very nature of the act of making articles bearing the design, the other relevant facts will be, or ought to be, within the knowledge of the maker. A similar position is recommended in respect of infringement by importation of articles bearing an infringing design, but to be qualified by later recommendations concerning the exhaustion of design rights. This recommendation reflects the considerable damage that can be done to the design proprietor's interests through importation, and the considerable revenues possible for the importer, which justify and make possible some burden of investigation to uncover the relevant facts before importing.

While concern with limiting liability of innocent infringers is also in evidence under patent and copyright law,[48] there are reasons for being particularly concerned about imposing such liability under industrial design law. The scope of industrial design protection is, and would be under the proposals in this paper, potentially very broad -- every useful article could bear a protected design which need only be original (i.e., not be copied from another source) to qualify for protection.[49] Unlike patent protection industrial design protection is not restricted to inventive technological advances, and unlike copyright protection industrial design protection is not restricted to contemporary creative works in various fields of the arts.[50] A further factor is that the existence and potential scope of industrial design protection may be less well known to the public, including those in the industrial and commercial spheres, than patent or copyright protection. The latter factor further increases the chances that unsuspecting persons would find that they had infringed industrial design protection simply by copying some non-novel features of appearance of some everyday utilitarian article, or had infringed simply by importing, selling or hiring such articles.

The recommendation made above concerning the requirement of registration as a condition for industrial design protection was based on the need to provide persons in industry and commerce with a method of determining whether protection was claimed for a particular industrial design.[51] Countries, including Canada, however, which have registration systems for industrial design have not been prepared to rely upon the availability of the register alone as an adequate method of protecting the innocent infringer.[52] This may reflect, in part, the difficulties which can be encountered in searching the register.[53] It would appear to reflect more importantly, however, a belief that it would be unreasonable to expect every person who proposes to make, or to deal with commercially, any utilitarian article to search the register to protect themselves against possible allegations of industrial design infringement.

One method that has been adopted in Canada and elsewhere to ensure that public notice is given of claims to industrial design protection without relying exclusively on the register is to require, or to encourage, articles in circulation bearing a protected design to be marked with notices of the design registrations. The stringent requirement of marking in the present Canadian industrial design statute, however, appears to be contrary to Canada's obligations under the Paris Convention which prohibit obligatory marking as a condition of protection.[54] Since there are difficulties with marking as an adequate form of notice of the existence of a design registration, a system which encourages marking, even if successful in achieving widespread marking, would not in itself be a sufficient mode of protecting the innocent infringer in every instance. Consequently, below proposals are made which, while they rely to a considerable degree on the encouragement of marking, also provide broader tests of circumstances in which lack of knowledge of a design registration ought reasonably to limit the liability of infringers.

(b) Infringement by Marking or Importing Articles

The proposals made here dealing with innocent infringement treat differently infringement by making or importing into Canada articles bearing infringing designs from infringement by the other forms of dealing with infringing articles. The manufacture or importation of infringing articles can do the most extensive injury to the interests of design owners. The making or importation of infringing articles makes possible infringement through the other forms of dealing with infringing articles. The manufacture or importation of infringing articles is generally a relatively larger undertaking than the other forms of infringement, which is more likely to be preceded by market surveys and other research which may uncover the existence of design protection. Further, the generally larger scale of activity in these forms of infringement will tend to yield greater financial returns for the infringers than the other forms of infringement and it is thus not unreasonable that they bear some costs of investigating the status of design protection. Consequently, it is reasonable that a greater burden of care in discovering existing design protection fall on those who infringe by making or importing infringing articles than those who infringe by other forms of dealing. It should be noted, however, that importation presents some special considerations which will require further statutory provisions that qualify the recommendations made in this section of the paper.[55]

For infringement by making or importing an infringing article the statute should provide that the defendant will not be liable for damages[56] if the defendant proves that he was not aware, and had no reasonable grounds for supposing that the design infringed was registered.[57]

The section should also provide that a person shall not be taken to have been aware, or to have had reasonable grounds for supposing, that the design was registered by reason only of the use in association with articles of the word "registered"[58] or any abbreviation thereof, or any word or words expressing or implying that the design applied to the article has been registered under the statute, unless the registration number of the design accompanied the word or words or the abbreviation in question.[59]

The intended effect of the recommendations made above can be summarized as follows.[60] The onus would be on the defendant to prove its innocence at the time of all relevant infringements. This would involve proof that the defendant did not know of the relevant design registration and also proof that it had no reasonable ground for supposing that a design registration existed. The latter requirement implies an objective, and not a purely subjective test. The defendant must prove that given its knowledge and the circumstances it should not reasonably have supposed that a relevant design registration existed. Further, it must show that in the light of the knowledge it had and the particular circumstances, there were no additional enquiries it ought reasonably to have made, which if made would have led it reasonably to conclude that a relevant design registration likely existed.[61]

In applying the latter requirement, however, one could not conclude that since the design was registered a reasonable investigation in any case would involve a search of the register since such a conclusion would negate the effect of the proposed innocent infringement defense.[62] The proposed statutory provision does make the circulation in Canada of articles marked with an adequate notice of the existence of the design registration a very important factor in deciding whether the defendant has reasonable grounds to suppose that a registration existed. The section also provides, however, that in no case is the circulation of marked articles alone to constitute grounds for finding that the defendant had reasonable grounds to suppose that a registration existed unless the Canadian registration number appears on the marking. The registration number is critical to giving adequate notice as without it, it could not be known whether any reference to registration was to a Canadian or to a foreign registration, and if it was to a Canadian registration there would be no sure way of discovering the name of the registrant from which one could conduct a search of the register, and if one did have a registrant's name there might be more than one registration in that name so that one could not know with certainty what registration it was claimed applied. Reference was made above to the difficulties in conducting searches of the register when searchig without a specific registration number[63]

The proposed statutory provision is not intended, however, to provide that marking with the registration number is conclusive of reasonable grounds to suppose a registration exists. Such a result would be unreasonable as the adequacy of such marking as notice of the registration would depend on the particular circumstances including such factors as the extent of circulation in Canada of marked articles.[64]

Another factor to be considered in drafting the proposed section is that it ought to stipulate a standard form of marking that may be used to indicate that a Canadian industrial design registratin exists, for example, "Canadian Design Registered." While the statutory language should be broad enough to permit the use of other adequate forms of words, the statute should be so worded that it makes it clear that it is notice of a Canadian, and not a possible foreign, registration that is required.[65]

Given the difficulty that is encountered in marking many articles themselves, the statute ought to make it clear that marking on packaging in which the article is sold or on tags attached to articles will be adequate. In addition the statute ought to recognize some particular short form, such as "Can Des Reg" as an adquate form of notice.[66]

Further, the section should be so drafted that it is clear that the innocent infringer escapes liability for damages for the period for which it proves its innocence regardless of the fact that it continued to infringe after discovering the existence of the registration.[67]

The statutory provision proposed should have no effect on the granting of an injunction against further making or importing of infringing articles. However, the statute should also provide that any infringing articles made or imported while the maker or importer was so unaware of the registration, and still not disposed of by the infringer upon its gaining knowledge of the registration, may be disposed of in Canada upon the payment of a reasonable royalty to the owner of the industrial design, if the owner of the design registration is unwilling to purchase such goods at cost.[68]

(c) Infringement by Sale or Other Dealing with Infringing Articles

Above it was recommended that it should constitute infringement of a registered industrial design to sell, hire, offer or expose for sale or hire, distribute or stock articles bearing infringing designs.[69] The defence of innocent infringement ought to give greater protection for this type of infringement than in the case of infringement by making or importing.[70] This difference of treatment of innocence reflects the fact that mere sale and other dealing with infringing articles will often occur on a much smaller scale in respect of each infringer than infringement by making or importing infringing articles. The smaller scale of infringement with smaller financial returns makes it less reasonable that such infringers be expected to devote significant resources to investigating the possiblilites of design infringement. For example, it would be unreasonable to place a burden of investigation on a retailer which carried relatively small quantities of hundreds or thousands of different items, each of which would present a potential design infringement problem.

The problem of knowledge of infringement in the case of mere sale and other dealing with infringing articles is more difficult for the infringer than in the case of infringement by making infringing articles. In the latter case once the maker knows of the existence of the design registration which it is alleged to be infringed[71] it is on this piece of knowledge that the proposed test of innocence, above, for that type of infringement was exclusively focused, the maker can be presumed to know whether that design was used as the source of the alleged infringing design and whether any such copying was done with the consent of the registered design owner. The only potentially difficult question remaining is whether the alleged infringing design is sufficiently similar to the registered design to be infringing and that poses possible difficulties not because of a lack of knowledge of the facts but because of uncertainties in applying the applicable law.[72]

On the other hand, one who infringes by mere sale of, or other dealing with, an infringing article, in order to know that the article is infringing must acquire knowledge not only of whether there is a prior registration but also whether it is copied to make the alleged infringing article and also whether any such application of the registered design was in fact done with the consent of the registered design owner. The discovery of such information could present considerable difficulties.[73]

A further factor influencing the proposed difference in treatment of innocence for the two types of infringement is that infringement by mere sale and other dealing can be effectively stopped by stopping the prior, larger infringement (i.e., making or importing the infringing articles) which makes this later infringement possible. There is a danger that registered design owners may fail to bring an infringement action against the primary infringers (makers and importers), perhaps because they fear having the validity of the registration challenged or simply from a desire to avoid the risks and costs of such action, but be able effectively to terminate the manufacture or importation by threatening retailers and distributors with infringement actions for dealing in the alleged infringing articles. The dealers may cease dealing in the articles because they do not themselves have enough at stake to make it worthwhile defending any threatened infringement action.[74] While a remedy is recommended for groundless threats of infringement below, that remedy itself is not sufficient to deal with all of the problems created by such activity.[75]
Consequently, the possiblity of such activity is a further reason to make the defence of innocence more extensive in the case of infringement by mere sale or other dealings in order to limit the potential for such abuse.

The revised industrial design statute should provide that it is not infringement to sell, hire, offer or expose for sale or hire, distribute, or stock articles for such purposes bearing infringing designs unless the owner of the registered design (or other plaintiff) establishes that at the time the defendant ordered such articles, or if it did not order them at the time it accepted them,[76] the defendant actually knew that the articles were produced, or had a design applied to them, in infringement of the registered industrial design, or actually knew that the article would have been so produced, or had a design so applied, if the production or application had taken place in Canada.[77]

The intended effect of the proposed provision can be summarized as follows. First, the onus of proving the necessary knowledge on the part of the defendant would be on the plaintiff, usually the registered proprietor of the design.[78] The plaintiff would be required to prove actual knowledge, and not mere constructive knowledge,[79] that the specific articles dealt in were infringing. This in turn would require a demonstration of first, actual knowledge that the design had been registered in Canada. This knowledge could be demonstrated by showing that the defendant had received actual notice of the registration from the design propietor or that the defendant had actually acquired knowledge of the registration in another way. Such other way might be through distribution of articles marked with an adequate notice of the registration provided that it could also be shown that the defendant had seen such articles and that the notice was adequate to give notice of the specific registration relied upon.

Further the plaintiff would have to show that the defendant had sufficient information to know that the alleged infringing articles had been copied from the registered design, recalling that copying imports both the use of the registered design as a source and a sufficient similarity between the registered design and the alleged infringing design. In addition, the defendant would have to be shown to have sufficient information to know that the alleged infringing articles had not been produced with the consent of the owner of the registered design.[80]

The statute should also make it clear that dealers can sell or otherwise deal in specific articles which an importer or maker of infringing articles is free to dispose of because the latter has proved its innocence and paid the royalty in respect of such articles, whether or not such dealers can be viewed as innocent under the test proposed.[81] Similarly retailers and other dealers ought to be free to sell or otherwise deal in specific articles acquired by other dealers (e.g., wholesalers and other distributors) while the latter were innocent under the test proposed above.

(c) Indirect Infringement

The present Canadian industrial design statute, unlike design legislation in other countries,[82] has no provisions dealing with the liability for infringement of so-called contributory infringers, i.e., persons who supply the means for others to carry out direct infringement by making infringing articles. As was noted in the Working paper on Patent Law Revision,

> "Cases may arise where numerious instances of infringement occur because a single source distributes the means to effect such infringement. It is more efficient to allow the patentee to move against that single source, and thus settle the issue of infringement in one legal action, than to force the patentee to sue numerous individual infringers."[83]

At least when a person knowingly supplies another with means uniquely adapted to enabling that other to infringe a registered industrial design, it is unreasonable to permit the supplier of the means of infringement to profit from such activity and to leave the proprietor of the registered design without a remedy against the supplier for the interference with its design rights. The revised statute ought to provide that upon the registration of an industrial design, all third parties not having the consent of the proprietor of the registered design are prohibited from supplying or offering to supply a person, other than a person entitled to exploit the registered industrial design, with means, relating to an essential element, for making articles bearing an infringing design or for applying such a design to articles.[84] The statute should also provide, however, that such third party is not liable for indirect infringement unless it actually knows that the means, in their ordinary use, are suitable solely for use in making articles bearing an infringing design or applying such a design to articles, and it also actually knows that the person to whom the means are supplied intends to use them for infringement of the industrial design.[85] The burden of proving such knowledge should be placed by the statute on the plaintiff in any infringement action.

The statute should specify that persons "entitled to exploit the industrial design" (to whom means for infringing can be supplied without creating liability for indirect infringement) include persons doing acts which are specifically exempted from being infringement under proposals made below.[86] However, this should not include supply of means to persons doing acts privately for non-commercial purposes. To permit the supply of means uniquely adapted to direct infringement to such persons to escape inclusion as indirect infringement might permit subterfuges such as supplying large quantities of an article bearing the protected design as a kit of easily assembled parts to persons who would assemble the article and use it privately.[87] Such activity is substantially the same thing as supplying the article bearing the design to the market (the persons who will use it privately) which clearly ought to be within the design proprietor's exclusive rights.

The proposed section on indirect infringement ought to be drafted in such a way that it applies only to the supply of means within Canada to persons who intend to use those means to infringe within Canada.[88]

(d) Actions Not Constituting Infringement

The revised industrial design statute should provide that any act done for private, non-commercial purposes does not constitute infringement of a registered industrial design.[89] This exception would apply to all forms of possible infringement and would exempt, for example, the hobbyist who made an article bearing a protected design from being an infringer.[90] The recommendation reflects the fact that the industrial design system is intended to protect the design proprietors' interests only in the commercial exploitation of their designs. The burden of proof on the issue of whether any act is done for private, non-commercial purposes should be on the plaintiff design proprietor.[91,92]

(e) Exhaustion of Design Rights

(i) Introduction

Above it was recommended that importation of articles bearing an industrial design registered in Canada be included in the definition of infringement in the revised design statute.[93] The question considered in this section is how far the treatment of importation as infringement ought to extend.

There is no question that the importation of articles to which a registered design has been applied without the consent of the registered proprietor under the Canadian statute, or of any legal person[94] related to the proprietor, ought to be defined as infringement. Permitting such importation would be as destructive of the industrial design system achieving its intended economic purposes as would the permitting of the making in Canada of articles bearing protected designs without the registered proprietor's consent. Questions arise, however, whether the importation of articles bearing a design registered in Canada ought to be regarded as infringement when the design was applied to such articles in a foreign country by the registered proprietor under the Canadian statute, by a corporation related to such proprietor by various corporate ownership and control relationships, or by legal persons related to such proprietor by assignments or licences of rights in the design.

The argument often given for extending the concept of importation as infringement very broadly, to include for example any importation of an article bearing a design registered in Canada without the express consent of the registered proprietor for that importation, is that such rights will be used to protect Canadian manufacturing of designed products from foreign competition. In addition it may be argued that such design rights are desirable to protect investments in the establishment of distribution networks in Canada for designed products, in advertising in Canada and in the establishment of service facilities necessary for some designed products.

The claim for a very broad extension of the definition of infringement to importation of designed products raises two related issues. The first is whether protection of Canadian manufacturing of designed products (and perhaps distribution efforts as well) against foreign competition is a good thing. The second issue is given that such protection is desirable, if a broad definition of importation as infringement in the industrial design legislation a desirable method of providing that protection. The second question will be examined below first since if it is concluded that a broad definition of importation as infringement is not a desirable method of providing protection aginst foreign competition for Canadian industry, it will become unnecessary to examine the first, and in many respects much more difficult question.

(ii) The Case Against a Broad Power to Exclude Imports: International Price Discrimination

The Economic Council of Canada recommended that the revised industrial design legislation be carefully drafted so as to guard against Canadian industrial design law being used as an instrument to enforce international price discrimination against Canadian purchasers of articles bearing industrial designs.[95] International price discrimination against Canadian purchasers may be possible if the Canadian industrial design law permits the proprietor of the registered Canadian industrial design to block any importation of articles bearing the design as being infringement. An example of such international price discrimination against Canada could occur in a case in which a particular legal entity had protection for an industrial design in Canada and in another country.[96] The other country is one of much lower costs of production than Canada and so the design proprietor locates its production facilities in that country to produce the designed articles for both the Canadian and the foreign market.[97] The other country also has a substantially lower level of income than Canada and therefore the designed articles are sold in that country at a relatively low, but still profitable price. The design proprietor would maximize profits if it could take advantage of the substantially higher level of incomes in Canada and the substantially higher price that Canadian purchasers would pay for the designed articles. However, that will not be possible if the design proprietor cannot exclude importation into Canada of low priced designed articles from the other country. If importation of designed articles from the other country is possible, any attempt by the design proprietor to price the designed article in Canada at a price higher than the price at which the designed articles are available in the other country plus transportation and other costs of importing the articles in Canada and a reasonable profit would be met by importation by others from the other country. In other words the price of the articles in Canada would tend to be competed down to the level of the price at which the articles were available in the other country plus the transportation and other costs of importing the articles into Canada.

Two aspects of the possible use of industrial design law to effect international price discrimination should be noted. First, it does not represent the registered design proprietor simply securing its "monopoly" returns through the exercise of its exclusive design rights.[98] Since the design proprietor has design protection in the other country as well as in Canada, the price at which the designed article is sold in the other country reflects the fact that the proprietor has its exclusive rights to make and sell the designed article. The higher price which the design proprietor can change in Canada if it is able to use its Canadian design registration to enforce international price discrimination reflects an additional factor -- that the proprietor is able to isolate the Canadian design rights.

The second aspect to be noted is that in such circumstances the Canadian industrial design rights are not being used, and will not tend to be used at least over the long term, as a kind of tariff to protect Canadian manufacturing and employment from low-cost foreign manufacturing competition. When a single legal entity has design protection in a number of countries, the existence of design protection tends to be a neutral factor in the location of production facilities to produce the designed articles. Generally, if locating production facilities in Canada gives the lowest cost of production and therefore long-run profit maximization, then production facilities will be located here, and the right to exclude designed articles from the Canadian market through the exercise of industrial design rights will play no role in the production location decision. As well, if the lowest cost and most profitable location to produce designed articles for the Canadian market is some other country, it would be an irrational decision for the design proprietor to locate production in Canada and use its Canadian industrial design rights to prevent importation from lower-cost-of-production countries. Rather, the proprietor would locate in the lowest cost of production location and would supply the Canadian market from that location and use its industrial design rights to prevent others from importing designed articles placed on the market by it from that or other locations if differences in income between Canada and those other locations would make a policy of price discrimination profitable. Thus, rather than influencing the location of manufacturing facilities, a Canadian industrial design law which permitted the proprietor to control importation completely, at least in circumstances in which the proprietor also owned the design rights in other countries, would tend to determine only who was able to import the designed articles into Canada and the prices that would be charged Canadians for those imported articles.

(iii) Cases For a Power to Exclude Imports: Protecting Canadian Manufacturing

The above description of the use of industrial design rights to exclude importation for the purpose of enforcing international price discrimination against Canada does not give a complete picture of the use of industrial design rights to exclude imports. In some circumstances such rights will be used to protect Canadian manufacturing of designed products from foreign competition. For example, a Canadian company may create an industrial design which it registers in Canada and may begin manufacturing the designed products in Canada. The company may also register the design in foreign countries and may assign or license its rights to the design in some foreign country to an unrelated company in that country. Later the Canadian company may discover that designed products are being imported into Canada from the foreign assignee or licensee of the design at prices sufficiently low that the Canadian company cannot profitably compete. If the Canadian company is unable to exclude the imported designed products, it may have to cease manufacture of the product in Canada.[99]

A similar problem to that above can occur when a Canadian company takes an assignment or a licence of Canadian registered design rights from a foreign company which owned rights in the design in Canada and other countries. The Canadian company may begin manufacture of the designed product, believing that it can produce the product more cheaply than the cost of importing it. However, once it has commenced production the Canadian company may discover, perhaps reflecting changed circumstances or original errors in calculations, that the designed products made abroad by the assignor or licensor of the Canadian design rights are being imported at substantially less cost than the Canadian company's cost of manufacture.

Rights to prevent importation in the industrial design system may be used to protect Canadian manufacturing of designed products from foreign competition in some cases even when that manufacturing is done by a branch of an international company owning its rights in a design in several countries. The original analysis of the use of design rights by multinational companies simply to enforce international price discrimination did not consider the difficulties that can arise in international production plant location. For example, a particular country, although it appears to be a location of very low costs, may be rejected as an appropriate location for a production plant for a designed product by a multinational company which is the owner of design rights in Canada and other countries. The reasons for not locating the plant in that country may reflect such things as concerns about long term political stability in the country. A local entrepreneur in that country, however, may establish a manufacturing plant and seek a licence to produce the designed product from the owner of the design which may be granted. Articles bearing the designs, which can be produced in that country at very low cost, may begin to be exported to countries such as Canada where the multinational company may have established manufacturing facilities to produce the designed products. In such circumstances the company owning the Canadian design rights may wish to use those rights to exclude the importation of such articles into Canada to protect the viability of its Canadian manufacturing facilities.

Further, it may be argued that the power to exclude imported designed products using Canadian industrial design rights may be useful to Canadian manufacturers of such products in assisting them to deal with extraordinary, short term disruptions that may be caused in the Canadian market by activities in the nature of "dumping" foreign produced designed products in Canada.[100]

It has also been argued that the power to exclude imported designed products is necessary in some circumstances to permit the owner, assignee or licensee of Canadian registered design rights to protect investments in the establishment of distribution networks and in advertising. For example a foreign company which is the owner of an industrial design registration in a foreign country and in Canada may assign only its Canadian design rights to an unrelated Canadian company. The design may be new, and quite different from earlier designs for that type of product, which may result in the need for substantial advertising and other marketing costs to introduce the product to the Canadian market in order to overcome consumer and distributor resistance to trying the novel product. In addition, for some products there may be costs in establishing servicing facilities and stocking spare parts for repairs. If the designed products are later imported into Canada by others, these products may be sold at low prices which, it may be argued, unfairly compete with the products from the Canadian company. The Canadian compay's products must be priced high enough to recover the marketing expenditures made in introducing the new product to the Canadian market. The pricing of the imported products does not have to include these costs and thus it is argued that these products when sold in Canada can "take a free ride" on the Canadian company's expenditures.

(iv) Assessment of Cases For and Against a Broad Power to Exclude Imports

The adverse effects on Canadian purchasers of designed products resulting from the use of a broad power to exclude imports in the industrial design law to enforce price discrimination would have to be set off against any benefits seen in instances in which such power was used to protect Canadian manufacture of designed products against foreign competition. The utility of such a power to exclude imports will depend, therefore, on the relative frequency with which the power is used to enforce price discrimination as opposed to being used to protect Canadian manufacturing. There is no data available to permit the direct measurement of the relative frequency of the probable occurrence of these two types of uses of the power to exclude imports. However, there is information available which points to concern about the extent to which a power to exclude imports would be used to enforce price discrimination rather than to protect Canadian manufacturing.

A requirement of the occurrence of price discrimination of the type described above is that there be ownership of design rights in the same design in more than one country including Canada by the same proprietor.[101] The Paris Convention, to which many countries including Canada adhere, protects the rights of design proprietors to secure protection for their designs in each of the member countries.[102] That factor, coupled with the growth of international trade and the role of multinational businesses, contributes to the frequency of multi-country ownership of design rights including ownership of rights in Canada. A further related factor is that the greater the extent of foreign ownership of design rights in

Canada, the greater the likelihood that there will not be Canadian manufacturing of designed products to protect. Above it was noted that foreign residents are owners of about 70 per cent of Canadian industrial design registrations.[103] Generally, given the small size of the Canadian population and industrial economy relative to the industrial world with which Canada trades, it may be unreasonable to expect that, even under the optimum conditions for the production of Canadian designs, Canadian owned designs will account for anything but a minority of the designs protected in Canada.

(v) The Desirability of Protection of Manufacturing

Above it was noted that the first question raised by the argument that a broad power to exclude imports under the industrial design law was desirable to protect Canadian manufacturing of designed products from foreign competition is whether such protection of Canadian industry is a desirable goal. This type of question has raised considerable controversy in the history of Canadian economic development and no attempt will be made here to resolve the issue, finally, even in the narrow context of industrial design protection. It is sufficient for the present purposes to note that considerable doubts have been expressed about the wisdom and value to Canada of such protectionist policies. Canadian governments have participated in the past several decades in international arrangements directed at reducing trade barriers, presumably with the view that such participation was in Canada's long term best interests. The Economic Council of Canada warned against the use of Canadian intellectual and industrial property law to protect and to encourage the development of small scale and otherwise inefficient Canadian manufacturing facilities.[104]

Another argument, however, made in favour of including in the Canadian law of industrial design at least some power for registered design proprietors to exclude importation is that the design law of foreign countries permits design proprietors to exclude from those countries designed products which originate in Canada.[105] It is suggested that some power to exclude imports ought to remain a part of the Canadian law at least so that it can be used in international bargaining with other countries to get them to remove design law import barriers that can be used against designed products originating from Canada.

(vi) Present Canadian Law

The Industrial Design Act does not expressly deal with infringement by importation of designed products. When products bearing a design which has been registered under the

Act have been imported into Canada and are offered for sale, the latter action could constitute infringement.[106] Infringement would occur only if the design had been applied to the articles without the consent of the registered proprietor of the design.[107]

While there are no decided cases on the point, it seems likely that the issue of whether the design had been applied abroad to the imported articles with the consent of the registered proprietor under the Canadian statute would be resolved under the same principles that have been evolved to deal with the importation of products embodying inventions protected by Canadian patents. When the design is applied to the articles in the foreign country by the same legal entity which is the registered proprietor of the design in Canada, the articles will not be regarded as infringing when imported into Canada and their sale will not constitute infringement.[108] However, if the design is applied to articles and sold in a foreign country by a legal entity which is not the registered proprietor of the design in Canada, no implied licence to sell the articles in Canada arises. This result appears to apply even if the legal entity applying the design and selling the designed articles in the foreign country is related to the registered proprietor of the Canadian design rights through assignment or licensing of design rights and/or through corporate ownership and control relationships.[109]

The fact that implied licences to sell designed products in Canada cannot arise through sales of such products in foreign countries by companies that are closely related by corporate ownership and control relationships to the company which is the registered proprietor of the design rights in Canada leads to anomalous results. For example, in one situation a United States corporation may have a wholly owned subsidiary corporation in Canada which is the registered owner of an industrial design under the Canadian statute, and it may also have a wholly owned subsidiary corporation in a third country which is the registered proprietor in that country of the design. Articles bearing the design made and sold in the third country by the subsidiary corporation these will not be able to be imported into and sold in Canada as no implied licence will arise under the Canadian design registration in such circumstances. In another case, however, a United States company might do business in Canada and in the third country through branches rather than subsidiary corporations in which case the United States company would be the registered proprietor of the design in Canada and in the third country. Then designed articles made and sold by the United States company's branch in the third country could be imported into and sold in Canada as an implied licence under the Canadian design registration would arise in such circumstances.

(vii) Recommendations

The analysis above of the effect of a broad power to exclude imports in Canadian industrial design law leads to real doubts that the net effect of such a power would provide its claimed benefit of protecting Canadian manufacturing of designed products against foreign competition. The analysis raises a strong suspicion that the adverse effects of enforcing price discrimination against Canada would outweigh the suggested advantages of the protection of Cahadian industry. Further, the suggested goal in providing for a power to exclude imports, the protection of Canadian manufacturing of designed products, has been subjected to serious challenges as to its benefits to Canada. Consequently, it is not recommended that the revised design legislation contain a very broad power for registered proprietors of designs to exclude, as infringing, imported products bearing the designs.

Some power to exclude imported articles bearing registered designs, however, clearly ought to be provided for in the statute. The distinction between those specific articles which should be excluded as infringing and those which should not, is based on identifying the legal entity responsible for applying the design and putting the specific articles on the market in the country from which the articles are imported. When the design is applied and the specific articles are placed on the foreign market by the same legal entity which is the registered owner of the Canadian design, then as under the present law those specific articles should be able to be imported and not be regarded as infringing. In addition, importation should be permitted when the design is applied and the specific articles are put on the foreign market by a company which is related to the company which is the registered proprietor of the design in Canada, in that one is controlled by the other or both are controlled by the same third compnay, where control means ownership of sufficient voting shares to elect a majority of the board of directors of a company.[110]

The case of related companies is substantially the same as the case in which the same legal entity is the registered proprietor of the design in Canada and the entity which places the goods on the foreign market. The proposal is to recognize that the group of related companies are the same economic entity for the purposes of industrial design ownership and exploitation. It is the cases of design ownership in Canadian and foreign countries by one legal entity or one group of related legal entities that is most likely to give rise to instances of international price discrimination against Canada of the type described above. In addition, the single proprietor or group of related proprietors will be able to consider making adjustments to cope with instances of imported goods taking "free rides" on the distribution and marketing expenditures made in Canada.[111]

It is recommended that designed products put on the foreign market by legal entities that are related to the registered proprietor of the design in Canada only through assignments or licences of design rights be treated as infringing under the revised statute. For example, when a registered design is owned in Canada by a company which also owns the design in other countries, and that owner assigns the design to an otherwise unrelated company in Canada, articles bearing the design put on a foreign market after the assignment of the design in Canada by the original owner should not be permitted to be imported into Canada without the express consent to the importation of the assignee who is now registered proprietor of the design in Canada.[112] Similarly when a company is the registered proprietor of a design in Canada and other countries, and it licenses or assigns the design to an unrelated entity in a foreign country, articles bearing the design originating with that licensee or assignee should not be permitted to be imported into Canada without the consent to the importation of the registered proprietor of the design in Canada at the time of the importation.

An argument can be made that the recommended provision in the revised statute, which deems the importation of specific designed articles not to be infringing if they were placed on the market anywhere in the world by the registered proprietor of the design in Canada or a person related to such proprietor, should apply only if the specific articles were so placed on the market in a country other than Canada in which the industrial design enjoys or has enjoyed industrial design, copyright or similar protection. If the imported articles originate in a country in which the industrial design did not enjoy protection, permitting the importation of the articles cannot be justified on the basis that the proprietor of the design has already received the benefit of protection for the design in respect of such articles and therefore does not need the right to control importation of the articles under Canadian law to secure that benefit.[113]

This concern could be met by a section in the revised statute which provided that notwithstanding the above recommended provisions deeming there to be no infringement,[114] an action for infringement could be brought if the plaintiff could prove that the specific articles, prior to their importation, had never been placed on the market by the registered proprietor of the design or by a related person in a country other than Canada in which the industrial design enjoyed or had enjoyed industrial design, copyright or similar protection.[115]

The would-be importer into Canada of designed articles, however, might face difficulties in discovering in some countries whether a particular design enjoys or has enjoyed industrial design or similar protection. There might be particular difficulties, for example, in countries in which designs receive copyright protection for which there will often be no requirement of registration or marking to secure protection.[116] The would-be importer ought not to be required to make enquiries, which at times could be quite difficult, as to the state of design protection in the country of origin of the specific articles. Unless the importer had information which should lead it reasonably to suppose that no protection is or had been enjoyed by the industrial design in such country, it should be free to import the articles into Canada, if the other requirements to permit such importation are met. If such a secion were adopted, it is recommended that the burden of proof that at the time the importer acquired or committed itself to acquire the articles, the importer had grounds reasonably to suppose that the industrial design did not enjoy industrial design, copyright or similar protection in any country in which the specific articles imported had been placed on the market by the registered proprietor of the design or a related person, be on the plaintiff in the infringement action.[117]

The outline of a possible section requiring that the industrial design enjoy industrial design protection in the foreign country from which the imported articles originated leaves a number of difficult questions unanswered, however. For example, what should be the entitlement to import designed articles into Canada when industrial design protection might have been obtained in the foreign country, but was not. Failure to obtain protection might reflect such things as breach of the foreign law's no-protection-if-publication-before-application rule, or simply a failure to apply for such protection.[118]

Further problems arise in deciding whether a particular registered industrial design protected in Canada is protected in foreign countries. The definitions of protectable designs vary from country to country such that difficult questions may arise as to whether a specific design protected in a foreign country is in fact the same as a particular design protected in Canada. These problems become even more difficult when foreign protection under utility model statutes, copyright or unfair competition law is compared with protection for a particular design registered in Canada.[119]

The complexities inherent in drafting a requirement that the industrial design enjoy protection in the country of origin of the imports leads to the recommendation that no such requirement appear in the provisions on the exhauston of design rights in the revised statute. The absence of such a requirement should not do substantial injury to the interests of the proprietors of registered industrial designs in Canada as many countries from which imports of designed articles are likely to orgiinate do offer some form of protection to industrial designs. Further, the fundamental requirment that the imported articles have been placed on the market by the registered proprietor of the design in Canada or by a person related through corporate control relationships will give a significant degree of indirect control to the proprietor and related persons as to whether designed articles originating in countries where there is no design protection are in fact imported into Canada. In assessing whether to place articles on the market in countries in which there is no design protection, one factor what the design proprietor or related persons may have to consider is that articles from such a country could be imported into Canada.

A further issue of the placing of the burden of proof arises in respect of the proof of the fact that the registered proprietor of the industrial design in Canada, or a person related as proposed to be defined in the revised statute, placed the specific articles which are imported on the market prior to their importation. Knowledge of whether the legal entity which placed the articles on the market is related to the registered proprietor of the design in Canada will depend on knowledge of corporate ownership relationships which may not be readily available to the importer. If importers have undue difficulty in establishing their right to import designed goods under the section, registered proprietors of Canadian design rights may be able to discourage importation unduly by bringing, and threatening to bring, infringement actions against importers. Consequently, the registered proprietor of the design (or other plaintiff in the infringement action) ought to have the burden of proving that the specific articles were not put on the market by the registered proprietor or by a perosn related to the proprietor as defined in the section.

In addition, the revised statute ought to provide that specific articles bearing registered designs may be imported under the proposed section notwithstanding any conditions or limitations imposed by the registered proprietor of the design or person related to such proprietor in relation to the sale of such articles when they were introduced into the market or thereafter. This will ensure that, for example, no contractual limitation, introduced by the registered proprietor of the design in Canada into a contract of sale of specific articles bearing the design in some foreign country, which purports to prohibit the importation of such articles into Canada, will have the effect of making the importation of such articles infringement despite the proposed provision for exhaustion of design rights.

(viii) Relation to Recommendations Concerning Loss of Copyright Protection

Above it was recommended that the Copyright Act be amended to provide that when the owner of copyright in a work has authorized the marketing of articles bearing a corresponding design but no industrial design registration has been secured, it is deemed not to be an infringement of copyright to do any act in relation to such corresponding design or any associated designs that would have been within the scope of industrial design protection for such designs had they been registered under the Industrial Design Act.[120]

An issue which arises in respect of this proposed provision is where the application of the work as a corresponding design must take place, that is whether in Canada or in any country. It is recommended that the proposed section in the Copyright Act provide that the application of a corresponding design and the marketing of articles bearing the design anywhere result in the specified loss of copyright protection.

Given the present high level of international trade and communications, Canadian business people acquire extensive knowledge of designed products being marketed in other countries. Such persons on seeing a designed product[121] begin marketed abroad may wish to know if they can import the products into Canada or whether they can copy the design for use on products they wish to make in Canada. Such persons should check the register of industrial designs in Canada, and if they find no registration they should be entitled to assume that there are no industrial design rights nor copyright that would interfere with their use of the design in Canada either through importation or the making of products in Canada.[122] If the application of the design and marketing of articles abroad does not terminate the

Canadian copyright in the corresponding design, that copyright could be used to block both importation of the designed articles in many circumstances,[123] and the making of articles to which the design was applied.

A second issue that arises in respect of the proposed section in the Copyright Act is which owner of copyright must give consent to the application of the work as a corresponding design, the owner of the Canadian copyright or the owner of the copyright in the place in which the work has been applied as a design. Ownership can be different, of course, as a result of assignments of copyright in Canada and elsewhere. It is recommended that the proposed section in the Copyright Act provide that it is the consent of the owner of the copyright in the country in which the work is applied as a design that is required.[124]

The scope of the above recommendation might be questionned in relation to the case in which the owner of the Canadian copyright and the owner of the copyright in the foreign country in which the work had been applied as a design were unrelated. It might be argued that to make this recommendation consistent with the recommendation made in respect of importation and industrial design,[125] the Copyright Act section should be limited to cases in which the owner of the copyright who gives consent to the application of the work as a design is either the same legal entity which is the owner of the Canadian copyright or a legal entity related by majority corporate ownership and control relationships to the owner of the Canadian copyright.

The latter approach has been rejected because of the difficulties that would be encountered in discovering what legal entity was the owner of the copyright in the foreign country and the difficulties in discovering whether that owner was related through corporate ownership to the owner of the Canadian copyright.[126] Further, it would not be an adequate response to this problem to have a statutory requirement that the plaintiff copyright owner prove that the defendant importer or manufacturer actually knew that the foreign copyright owner was not the same as and was not related to the owner of the Canadian copyright.[127] While a not entirely unreasonable result might be achievable under such an approach in respect of defendants who were only importers, considerable difficulties would arise in respect of defendants who had established manufacturing facilities to produce designed articles without knowledge of any industrial design or copyright protection that would affect them. To require such manufacturers to cease production upon being given actual notice of copyright could cause substantial losses to such manufacturers.[128]

(f) Presumptions of Originality and Ownership

An infringement action will succeed only if the validity of the industrial design registration is maintained in the action which means maintaining that the design is original under the design system proposed.[129] The issue thus arises of on whom the burden of proof in relation to originality ought to lie in an infringement action.

The *Johnston Committee Report* recommended that there be no statutory presumption of originality for depositied designs under its proposed Design Copyright system, and that the proprietor of the design in any infringement action.[130] The reason given for this recommendation was that unlike artistic or literary works protected by copyright, the originality of many industrial designs would not be obvious and therefore ought not to be presumed. The lack of obvious originality was seen by the Committee as the result of the scope of possible originality for many designs being limited by functional requirements and by the existence of well-known trade variants for designs from which many designs, perhaps in order to be readily marketable, might not differ sufficiently to be original. In additon it should be recalled that the Committee proposed that there be no examination for originality by the industrial design administrators as a prerequisite to deposit and protection of a design.

This paper had proposed that under a revised Canadian industrial design system the Industrial Design Office conduct a limited examination for originality when design registration applications are made. The Office is to have the power to reject applications which on their face are not original. In general this would mean rejecting those applications in which the design was staple or commonplace, or varied only insignificantly from designs commonly used in the trade.[131] The Office would have little or no opportuity to determine if the design was unoriginal in that it had been copied from an earlier design.

The limited examination for originality by the Office could lead to the conclusion that there ought to be at least a limited presumption of originality for registered designs commensurate with the scope of the examination.[132] This view is reflected in the proposed U.S. *Design Protection Act of 1980* in which there is an implicit presumption of originality stemming from registration, but it is also provided that the proprietor has the burden of proving that the design is original whenever another party in legal proceedings in which the design rights are being asserted establishes the existence of an earlier design sufficiently similar to the registered design to raise a prima facie question of whether the registered design was copied from the earlier design.[133]

It is recommended that the approach of the qualified presumption of originality in the U.S. proposed legislation not be adopted and that the approach recommended by the Johnston Committee, that there be no presumption of originality and that originality have to be proved in infringement actions, be adopted. The recommendation reflects the difficulties that will be encountered by the Industrial Design Office in administering the examination for prima facie originality. An accurate assessment of the originality of a design in respect of its not being commonplace or only insignificantly different from design variants commonly in use in the relevant trade will require a thorough knowledge of existing designs and the industry practice respecting design variants. Since designs can be applied to any type of product, satisfactory examinations for originality will rest on the ability of the Office to acquire sufficient knowledge of existing designs and industry design practices over a vast range of different types of designed products. While the task of the Office would be somewhat more manageable under the proposed legislation than under the present statute with its requirement of an examination for novelty, it would remain a formidable, and not entirely dissimilar task. Experience with the present novelty requirement confirms the conclusion that it would be unreasonable to expect the Industrial Design Office to be able systematically to do an examination for originality that would provide a satisfactory basis for a limited presumption of originality.[134]

Other than the requirement of originality, however, the register ought to constitute prima facie evidence of the material authorized or required to be entered on the register, in particular, matters of title to registered designs, and the revised Canadian industrial design statute should expressly so provide.[135]

(g) Licensees as Plaintiffs in Infringement Actions

Licensors of industrial designs are sometimes indifferent to, or are unwilling to take action with respect to infringement which is damaging the interests of licensees.[136] Therefore licensees of registered industrial designs ought to be given the power under the revised statutes to bring infringement actions.[137]

There may be some difficulty, however, in selecting the best procedure for giving licensees the right to bring infringement actions. Since the registered design remains the property of the registered proprietor, notwithstanding the existence of licensees, who may wish to retain control over any litigation with respect to the design, the proposed section might require a licensee first to give notice to the registered proprietor to commence an action. The statute could go on to provide that only if the proprietor failed to commence an action within a specified period could the licensee commence the action, joining in the proprietor as a defendant.[138]

One difficulty with such a procedure is that it produces delays in commencing the action, which may be particularly damaging to the licensee if the procedure precludes his securing an interlocutory injunction until after notice of the proprietor and the expiry of the specified period.[139]

An alternative procedure would simply give licensees the power to bring actions on their own provided that they joined the registered proprietor as a party to the action.[140] Such a procedure would keep delays in bringing an action to a minimum.

A further difficulty arises in respect of how other licensees ought to be treated in such a procedure. Since there will be the possibility of overlapping claims in respect of infringement by licensees, and there is a need to avoid multiple legal actions, such licensees must at least receive notice of any action and have a right to participate if they choose to do so. Some licensees might choose not to participate, however, and therefore the problems of overlapping claims and avoidance of multiple actions could be dealt with only by requiring that all licensees be made parties to any such action.[141] It is recommended that the statute require all licensees to be made parties.[142]

(h) Registration as a Prerequisite to an Infringement Action

The statute should provide that only a registered proprietor may bring an infringement action and that damages are claimable only in respect of the period during which the proprietor was registered. This means that assignees of registered designs would have to register in order to be able to bring an infringement action. Similarly, the statute ought to provide that only registered licensees may avail themselves of the right proposed above for licensees to be able to bring infringement actions, and that they may claim damages only in respect of such period during which their licencfs were registered.[143]

(i) Remedies

The statute ought to provide that the court has power to award relief by way of damages and injunction when infringement is found to have occurred. It is recommended that the power to award an accounting for profits be expressly excluded by statute in that the burden imposed on the defendant by the procedure in this remedy can give the plaintiff an unreasonable advantage in negotiating a settlement.[144]

The statute ought not to provide for any remedy in the nature of a deemed conversion of infringing articles or the dies or moulds used to create them as is provided for under copyright law.[145] In relation to industrial design infringement in which the value of the design may be only a small fraction of the value of the article to which it is applied, such a remedy can impose an unreasonable penalty on the infringer and may result in the plaintiff being unfairly enriched.[146]

Notwithstanding the rejection of any remedy in the nature of conversion, there does appear to be a proper role for a discretionary power for the court to order disposition of infringing articles and of means specially adapted for carrying out infringement, for example, dies for the production of infringing articles. The statute ought to provide, therefore, that the court may order disposition of infringing articles produced, imported or acquired and may order the disposition of articles or materials adapted for carrying out infringement on such terms as the court finds fit and just.[147]

There ought not to be an express general power in the revised statute to make awards of exemplary damages.[148] However, consideration should be given to enacting a more limited section which gives the court expressly the power to award exemplary damages for repeated infringement by a defendant after it had been found to have infringed in earlier proceedings or after havig given an undertaking to the proprietor not to infringe.[149]

(j) Limitations

The Industrial Design Act now provides for a limitation period of twelve months within which infringement actions must be brought.[150] This period seems unduly short. The periods of limitation in the present Copyright Act is three years[151] and the proposed U.S. design law would have had a period of three years.[152]

It is recommended that the statute provide that no action for infringement may be commenced more than three years after the infringement occurred and that no damages be recoverable in respect of infringement which occurred more than three years before the bringing of the action.

(k) Jurisdiction of Courts

Under the Industrial Design Act like other present intellectual property statutes both the Federal Court and the provincial courts have jurisdication over infringement actions. Jurisdiction over the rectification and alteration of the industrial design register is, however, given exclusively to the Federal Court.[153] The result of this division of jurisdiction is that in an infringement action in a provincial court the defendant may succeed using defences which show that the industrial design is not validly registered.[154] However, the court will lack the power to expunge the registration.

Below it is recommended that the Federal Court retain exclusive jurisdication over rectification of the register.[155] Defences based on the invalidity of the industrial design registration are frequently raised in infringement actions. This means that the anomalous result of the court in an infringement action finding grounds to invalidate a design registration but not having the authority to do so will continue to arise frequently if the provincial courts retain jurisdiction over industrial design infringement. Consequently it is recommended that the Federal Court be given exclusive jurisdiction over infringement of industrial design.[156]

(l) Defences

The revised statute ought to provide expressly that a defendant in an infringement action may rely as a defence on any ground which would justify invalidation of the industrial design registration or any other defence which would render the registration unenforceable.[157]

3. Summary of Recommendations

(i) Copying vs. Monopoly

The revised statute should provide protection against the copying of registered industrial designs only.

(ii) Direct Infringement

(a) Infringement by Making or Importing

(i) Subject to the defence of innocent infringement (see below), the making of any utilitarian article bearing the original features of a registered design, or features not substantially different therefrom, as defined by the representation and the statement of originality in the registration, done by copying directly or indirectly the registered industrial design, without the consent of the registered proprietor of the design shall be infringement.

(ii) Subject to the recommendations on exhaustion of design rights (see below), the importation of any article which infringes as having been made contrary to recommendation a), above, or which would have so infringed had the article been made in Canada, shall be infringement.

(iii) In the cases of infringement by making or importing, the defendant should not be liable for damages (or an accounting for profits if that remedy is available) if the defendant proves that it was not aware, and had no reasonable grounds for supposing, that the design was registered. A person shall not be taken to have been aware, or to have had reasonable grounds for supposing, that the design was registered by reason only of the use in association with articles of the word "registered" or any abbreviation thereof, or any words expressing or implying that the design has been registered unless the registration number of the design accompanied the word or words.

(iv) The Statute should provide for an optional standard form of words and a standard abbreviation that can be used, in conjunction with the registration number, to indicate that a Canadian indusrial design registration exists. Further, the statute should authorize the use of notices of registration on packaging or tags attached to articles, as well as on the articles themselves.

(v) The statute ought to provide that a maker or importer which establishes that it was not aware of a design registration as provided for in recommendation d), above, may dispose of designed articles in Canada made, imported or contracted to be imported while so unaware and not disposed of by the maker or the importer upon its gaining knowledge of the registration, upon the payment of a reasonable royalty to the proprietor of the industrial design, if the proprietor is unwilling to purchase such articles at cost.

(b) Infringement by Sale or Other Dealing

(i) Subject to the defence of innocent infringement (see below), it shall be infringement to sell, hire, offer or expose for sale or hire, or distribute, or to stock for any of the preceding purposes, infringing articles made or imported contrary to recommendations a) and b), above.

(ii) It should not be infringement to deal with articles as specified in recommendation i), above, unless the plaintiff establishes that at the time the defendant ordered or accepted such articles, whichever occurred earlier, the defendant actually knew that the articles were produced, or had a design applied to them in infringement of the registered design, or that would have infringed had the production or application taken place in Canada.

(iii) Persons should be expressly permitted to sell or otherwise deal in specific articles which an importer or maker of otherwise infringing articles is free to dispose of because the latter has proved its innocence and paid a reasonable royalty in respect of such articles under recommendation a) v), above.

(iv) Persons should be expressly permitted to sell or otherwise deal in specific articles acquired by other persons while the latter were innocent under recommendation ii), above.

(iii) Indirect Infringement

It should be infringement to supply, in Canada, without the consent of the registered proprietor of the design, to persons other than those entitled to exploit the registered industrial design, with means, relating to an essential element, for making articles bearing infringing designs or for applying such designs to articles in Canada. Suppliers should not have infringed, however, unless the plaintiff shows that they actually knew that the means in their ordinary use were suitable solely for such direct infringement, and unless they also actually knew that the persons to whom the means were supplied intended to use the means for such direct infringement. There should be no direct infringement by persons to whom the means are supplied under this section if their activities are expressly exempted by the recommendation 5, below, except if the activities are merely for private, non-commercial use.

(iv) General

It should be made clear that an innocent infringer escapes liability for damages in respect of infringement which occurred during any period of innocence regardless of the fact that it continued to infringe after it ceased to be innocent.

(v) Actions Not Constituting Infringement

(a) Acts done for private, non-commercial purposes should not constitute infringement.

(b) Acts done for purposes of experimentation with the subject matter of the design and with methods of producing the design should not constitute infringement.

(c) For further clarity the statute should indicate that reproductions of a registered design as illustrations in advertising, or in print, broadcast and other media does not constitute infringement.

(vi) Exhaustion of Design Rights

(a) Once a registered proprietor, or any person deemed related to the registered proprietor under part ii), below, has consented to specific articles, to which a design has been applied which falls within the scope of the registered design, being introduced into the maket anywhere in the world, no action for infringement may thereafter be taken with respect to such specific articles.

(b) For the purposes of recommendation i), above, persons are related if they are members of a group of persons, at least one of which is a corporation, in which one person owns or controls, directly or indirectly, sufficient voting shares of the members of the group which are corporations to elect a majority of the board of directors of such corporations.

(c) Persons will not be deemed to be related for the purposes of recommendation i), above, if they are related merely through assignments and licences of rights in industrial designs.

(d) In respect of any issue of infringement by importing designed articles, or by sale or other dealing with designed articles (see recommendation b) i), above, without the consent of the registered proprietor for the industrial design, the relevant proprietor shall be the person who is the registered proprietor of the right to make articles of which the design has been applied. [See footnote 105.]

(e) No action for infringement may be taken with respect to specific articles placed on the market under recommendation (i), above, notwithstanding any conditions or limitations imposed by the registered proprietor or a person related to such proprietor in relation to the sale of such articles when they were introduced into the market or thereafter.

(f) There should be no requirement as a condition of the application of the principle of exhaustion of design rights that the industrial design enjoy industrial design or similar protection in a country other than Canada in which the specific articles imported into Canada were placed onto the market by the registered proprietor in Canada or a related person prior to importation.

(g) In any action for infringement in respect of importation, sale or other dealing with specific articles to which a design has been applied which falls within the scope of the registered design, the registered proprietor (or other plaintiff) shall have the burden of proving that such articles were not introduced into the market with the consent of the registered proprietor or a person related to the proprietor.

(vii) Relation of Exhaustion of Design Rights Recommendations Concerning Loss of Copyright Protection for Industrial Designs [See Ch. 2.]

Copyright protection for an industrial design which is to be deemed to be lost in Canada under recommendations in Ch. 2., text after note 74, when a work protected by copyright is applied as an industrial design and articles bearing the design are marketed, should be deemed to be lost when the work is applied with the consent of the owner of copyright in the place where such application take place (who might not be the owner of copyright in Canada); and when such articles are marketed anywhere in the world.

(viii) Presumptions of Originality and Ownership

(a) The statute should provide that the plaintiff must prove the originality of the registered design in infringement actions, i.e., registration is to give no presumption of originality in such actions.

(b) Other than the originality of the design, registration ought to provide prima facie evidence of the facts contained in the registration, including facts as to title to the registered design.

(ix) Licensees as Plaintiffs in Infringement Actions

Licensees ought to be given the right to bring infringement actions provided that the proprietor and all others with registered interests in the design (including licensees) are joined as parties to the action.

(x) Registration as a Prerequisite to an Infringement Action

Only persons with registered interests in design should be permitted to bring infringement actions and only in respect of infringement which occurred while their interests were registered.

(xi) Remedies

(a) There should be no power to award an accounting for profits as a remedy for infringement.

(b) There should be no remedy in the nature of a deemed conversion of infringing articles.

(c) There ought to be a remedy of a discretionary power for the court to order disposition of infringing articles and of means specially adapted for carrying out infringement on such terms as the court finds just.

(d) The court ought to have a power, expressly set out in the statute, to award exemplary damages for repeated infringement by a defendant which had been found to have infringed in earlier proceedings or after having given an undertaking to the proprietor not to infringe.

(xii) Limitations

The limitation period for infringement actions ought to be three years.

(xiii) Jurisdiction of Courts

The Federal Court should be given exclusive jurisdiction over infringement of industrial designs.

(xiv) Defences

A defendant in an infringement action ought to be able to rely as a defence on any ground which would justify invalidation of the design registration.

4. Footnotes to Chapter 7

1. Industrial Design Act, R.S.C. 1970, c. I-8, ss. 9, 11, 15. While the statute does not mention them, it has been held that the remedies of an accounting for profits and an injunction are available in appropriate cases of infringing reproduction of a registered industrial design. Global Upholstery Co. Ltd. v. Galaxy Office Furniture Ltd. (1976), 29 CPR (2d) 145 (F.CT.) at 168.

2. Id., s. 16(1) (a). The section provides for a forfeiture of, "...a sum not exceeding one hundred and twenty dollars and not less than twenty dollars to the proprietor of the design...." This type of mixed civil and criminal penalty is rare in modern Canadian legislation. See also below, note 8.

3. Id., ss. 11, 16(1). Presumably, the "partial use" would have to be substantial enough to be recognizeable as a reproduction of the registered design. The words "partial use" are not used in s. 15 which section gives the right to collect damages for infringement. It is not clear what, if any, effect such omission may have. Dr. Fox, citing U.K. cases interpreting the quite different U.K. statutes (pre 1949 and post 1949), stated that, "It is not infringement [under the Canadian act] unless the totality of the design is substantially taken." Fox, The Canadian Law of Copyright and Industrial Designs, 2d Ed., (1967), p. 681.

In Regina v. Premier Cutlery Ltd. (1980), 55 CPR (2d) 134 (Ont. Prov. Ct.) the court, citing Fox, finds that to interpret the inclusion of the word "partial" in s. 16(1) (a) to mean that taking only a part of a registered design would subject a defendant to liability would be, "... absurd and contrary to the jurisprudence on civil cases of infringement." (p. 143).

4. Industrial Design Act, supra note 1, ss. 11, 16(1) (a). Fox, supra note 3, p. 678. Since the type of article to which the design is applied in the registration is an integral part of determining what the design is, presumably the article to which the infringing reproduction is applied must be such as to permit the design to be recognizeable as the registered design.

5. The language of the Industrial Design Act, supra note 1, ss. 11, 15, 16(1), contemplates three types of infringing reproduction. First is the application of the design itself as registered. Second is the application of an "imitation" of the design, which is a reproduction not of the

registered design exactly but sufficiently close to it to be recognized as an obvious copy of the original. While the statute is far from clear, it would appear that these two types of infringement need not involve actual copying, *i.e.*, infringement occurs if there is such a reproduction of the protected design even if it is a result of an independent, non-copying production of the design. While the word "imitates" used in the statute (s. 15) seems to imply conscious copying, a British court in interpreting the word "imitation" in the U.K. industrial design statute stated, "An alleged infringing design may be an imitation although the author of it never knew of the registered design at all." *Dunlop Rubber Co. Ltd. v. Golf Ball Developments Ltd.*(1931), 38 RPC 268 at 279 *per* Farwell, J. See also *R.v. Premier Cutlery Ltd.,supra*Note 3, at p. 148. The third type of infringing reproduction is the "fraudulent imitation" which does appear to require a showing of actual copying from the registered design. *Dunlop Rubber v. Golf Ball,supra,*at 279, *R.v. Premier Cutlery Ltd.,supra*note 3, at 148. A fraudulent imitation, while it still must be [illegible] recognizeable reproduction of the protected design, need not be as close a copy as a mere imitation.

In *R. v. Premier Cutlery Ltd.*, *supra*, pp. 148-149, the issue is raised whether under s. 16(1) (b) of the Act an imitation of a registered design becomes fraudulent if the vendor was aware of the registered design at the time of offering for sale the article bearing the imitation, but the author of the imitation was unaware of the registered design when the imitation was made.

6. *Industrial Design Act*, *supra* note 1, ss. 11, 15, 16(1).

7. *Ibid.*, s. 15. Presumably the language is broad enough to include instances in which the alleged infringer did not know the design was registered as well as cases in which the alleged infringer knew the design was registered but did not know that the proprietor had not given consent to the reproduction.

8. *Industrial Design Act*, *supra* note 1, s. 16(1) (b), (2). In addition to the obvious inadequacy of the relief provided by s. 16(1)(b), there are serious questions concerning the fact that relief for this type infringement is available only through a criminal proceeding. In general, the mixing of a criminal and civil proceeding in a single action seems unwise. Such mixing raises difficult issues of principle concerning such matters as burden of proof, costs and the role of prosecutorial discretion.

9. Societe Anonyme Les Cuirs Meillon v. Brumer et al. (1974), 18 CPR (2d) 102 (Que. Sup. Ct.) affirmed 25 CPR (2d) 153 (Que. C.A.); R. v. Premier Cutlery Ltd., supra note 3.

10. Industrial Design Act, supra note 1, ss. 11, 15, 16(1). Fox, supra note 3, p. 683. R.v. Premier Cutlery Ltd., supra note 3, at p. 150. Other defences available in a civil action for infringement, e.g., that the design registration is invalid for lack of novelty, are available in a criminal action under s. 16. See R.v. Premier Cutlery Ltd., supra, pp. 137-138.

11. Publication in the statute cannot logically refer to a first making public of the design since s. 16(1) (b) gives protection only to registered designs and such designs are made public in the register of industrial designs upon registration, Industrial Design Act, supra note 1, s. 21(1).

"Publication" ought to be restricted in any statutory revision to refer to the making public of a previously unpublished work and ought not to be used so as to suggest it is being used as a synonym for "reproduction" or "distribution." See Infabrics v. Jaytex Ltd., [1981] 1 All E.R. 1057 (H.L.) There is no provision for protection for the making public of previously unpublished designs in the current statute and such a provision is not recommended for the revised statute. Protection for such publication of disclosure should remain an aspect of the general law of confidential information and trader secrets.

12. Supra, text at note 8. R. v. Premier Cutlery Ltd., supra note 3.

13. Patent Act, R.S.C. 1970, c. P-4, s. 46.

14. Copyright Act, R.S.C. 1970, c. C-30, s. 17.

15. "Almost everyone agreed however that it is protection against copying that is really needed, and it seems likely that all cases in which plaintiffs succeed under the existing monopoly system are those in which the court finds, or suspects copying." Report of the Committee to Consider the Law on Copyright and Designs, Copyright and Designs Law (1977) U.K. Cmnd. 6732 ("Whitford Committee Report"), p. 317.

A review of the cases under the Canadian industrial design legislation indicates that the latter conclusion of the Whitford Committee, i.e., that copying is present in all cases in which infringement is found, would apply to the Canadian expereince as well. In fact, it may not be entirely clear from the legislation or the cases interpreting it that the Canadian Industrial Design Act does protect registered designs against more than copying. The language of the statute is such as to bear the interpretation that a monopoly is created. See Industrial Design Act, ss. 9, 11 and supra text at note 5. However, the question does not appear to have been squarely addressed in the cases interpreting the statute. As the Whitford Committee noted the cases proceeed on the basis that copying is established and often no reference is made to whether it needs to be proved. An example is Iammatteo v. Rosita Shoe Co. (1976), 25 CPR (2d) 157 at 172 in which the Court (per Walsh, J.) finds that it is not credible (as the defendant had argued) that the defendant's shoe design could have originated independently of the plaintiff's design, and that there must have been copying. If it were clear that the statute gave monopoly protection, one might have expected the court to observe (although not necessary to the decision) that even if the defendant were right that there was no copying that would not settle the issue of whether there was infringement as the statute gave a monopoly over the registered design.

In R.v. Premier Cutlery Ltd., supra note 3, p. 148, the Court states that in deciding whether there is an imitation it is not necessary to find, "whether the author of the alleged infringing design makes use of the registered design and copies it." However, it is not clear how far that statement could properly be applied interpreting "imitates" in s. 15 of the Act, which the Court was not interpreting in that case.

Roy Jackson has stated, "Certainly [the Industrial Design Act] only protects against copying." "A New Approach to Protection For the Designs of New Products" (1956), 34 Can. Bar Rev. 369 at 371.

Professor Roberts has noted that the history of the Canadian industrial design legislation seems to indicate that the legislation was based on a trademark type approach to protection. However, the courts have tended to apply the requirement and standards of the U.K. patent type (monopoly protection) legislation to the Canadian statute. Roberts, R.J., "An Historical Perspective on the Reform of Canadian Industrial Design Law" (1978-79) 26 Bull. of Copyright Soc. USA 447 at 454-55, 457.

Whether or not there is uncertainty about the scope of protection (copying only vs. monopoly) under the present statute, the experience under the statute in which infringement actions appear to succeed only when there is evidence of copying, and the conclusions in the text about the appropriateness of copying as a requirement of finding infringement under the revised legislation, lead to the conclusion that providing that infringement will require a finding of copying in the revised industrial design statute will not constitute a significant change in the extent of protection from the perspective of industrial design owners. Therefore such a change will not contravene the conclusion arrived at in Part I, the economic analysis that the available evidence and the analysis of it could not justify any significant increase or decrease in the amount of protection under the legislation.

Roy Jackson has proposed an industrial design system which provides protection only against copying. See "A New Approach..." supra.

Proposed design legislation in the U.S., which has not been enacted, H.R. 4530, 96th Congress, 1st Sess. (1979) would give protection only against copying.

The Whitford Committee Report, supra, p. 46 recommended protection for industrial designs against copying only. The U.K. report, Reform of the Law relating to Copyright, Designs and Performers' Protection, A Consultative Document, Cmnd. 8302 (1981) ("U.K. Consultative Document"), pp. 6-8, recommended copyright protection for industrial designs but left open the question whether the existing monopoly protection statute ought to be repealed.

Two of the more recently enacted industrial design statutes, the Uniform Benelux Designs Law (entering into force in 1975), translation appears at [1974] Industrial Property 178 and The Nordic Design Laws (1970), translation appears at [1971] Industrial Property 223. provide monopoly protection.

16. An example of this cost saving occurs in instances in which the design can be copied very cheaply through a moulding process. Designs Law Review Committee, Report on the Law Relating to Designs, 1st Reference, (1973) Government Printer of Australia, ("Franki Committee Report"), p. 62.

17. Supra, Chap. 2, text at note 46.

18. The uncertainties occur because of difficulties encountered in endeavouring to determine if a design is protected. While the register is of considerable assistance, errors in searching can be made and the problems of developing effective indexes of registered designs contribute to the difficulties of search. The searching process is made more difficult when it is recalled that there can be infringement when the infringer uses a design on a different

type of article from that to which the design is applied in the registration, provided that the design as used by the infringer is clearly recognizable as the protected design. Further uncertainties arise as a result of paris Convention priorities, by which persons who have registered a design in another Paris Convention country have six months within which to register the design in Canada and claim priority of entitlement to register as of the date of the first application in a Paris Convention country. See below, Chap. 14, text at note 12. As well, uncertainties arise in establishing the scope of protection for registered designs and in deciding whether a particular design, which is not identical but is similar to a registered design, falls within the scope of protection of the registered design. In Ch. text at notes 24b-28, supra, we referred to the conceptual and practical difficulties in applying the test of novelty to industrial designs. Similar conceptual and practical difficulties arise in assessing whether there is infringement in such cases.

19. See Ch. 1, text at notes 41-56, for the recommendation that "industrial design" be defined to apply only to the aesthetic features of utilitarian articles.

20. The incentive effects in the patent situation of the availability of monopoly protection, as opposed to protection only against copying, are somewhat ambiguous. In assessing whether to invest in the attempt to solve a technological problem by making a patentable invention, the would-be investor must consider the risk that another will complete the invention and secure patent protection before the investor does. As the patentee will secure monopoly protection, the investor prima facie will be precluded from attempting to recover the costs of its own invention (completed shortly after that of the patentee, without knowledge of the patentee's invention) through the use of its invention. The present Canadian Patent Act,supra note 13, s. 58 reflects an effort to mitigate such effects of monopoly protection to some degree. See also Working Paper on Patent Law Revision,Proposed Patent Law,s. 50.

Such problems will not arise under an industrial design system which grants protection only against copying. Therefore no provisions in the nature of the Patent Act, s. 58 or other proposals for such "intervening rights" will be necessary.

21. An example would be a process invention that could be practiced in secret, where the product of the process was such that it did not reveal the nature of the process.

22. Unless the patent law specifically excluded the possibilities, the first inventor would expect to practise the invention in secret until it appeared that another would secure patent protection, at which time the first inventor would expect to secure patent protection itself or at least to preclude that other from securing patent protection on the basis of its own first invention.

23. Patent Act, supra note 13, s. 63. A similar incentive is provided by a first-to-file patent system offering monopoly protection. See Working Paper on Patent Law Revision, pp. 186 ff.

24. Supra, note 15

25. Supra, note 15

26. Report of the Departmental Committee on Industrial Designs, (1962), U.K. Cmnd. 1808, p. 29, ("Johnston Committee Report").

27. The Johnston Committee Report, supra, note 26, p. 73, noted that there should be no limitation to the scope of protection based on the method of reproduction, e.g., a limitation to protection against reproduction only by "mechanical means" or "industrial processes." (See Copyright Act, R.S.C. 1970, c-C-30, s. 46(1) for a reference to the latter.

28. See below under heading "Articles to Which Applied."

29. See below under heading "Degree of Similarity."

30. The express reference to the representation and the statement of originality reflects a similar recommendation of the Johnston Committee Report, supra note 26, p. 56 made in relation to the system of design monopoly. Under the proposals made in this paper, the representation and statement of originality appearing in the registration are to define the scope of the protected design. See Ch. 5., text after note 16.

31. "The term 'directly or indirectly' is used to distinguish, and also to include, copying the work itself and copying a copy of it." Johnston Committee Report, p. 73. If there were no express reference to indirect copying, nevertheless, it is expected that the courts would interpret the statute so as to include such copying. Fox, The Canadian Law of Copyright and Industrial Designs, 2d. Ed., (1967), p. 329.

32. Exposure for sale is expressly included infringement under s. 16(1) (b) of the present Industrial Design Act, but offer for sale is not expressly mentioned. The present U.K. Registered Designs Act 1949, 12, 13&14 Geo. 6, c.88, s. 7(1) refers only to "offer for sale." The Johnston Committee Report, supra, note 26, pp. 57-58 recommends reintroducing "expose for sale" (which appeared in earlier U.K. legislation) as a couple of U.K. cases had suggested that the display of goods in a shop would not constitute an "offer" to sell the goods.

33. The proposed, but not enacted, U.S. designs legislation, H.R. 4530, supra, note 15, s. 908(a) (2) includes "distribute" in addition to sale. The inclusion of "distribute" would include as infringement distribution which did not amount to sale or offer for sale.

34. Since articles bearing registered designs may have been made outside Canada it may be necessary in drafting the provision in the statute to define infringing articles in this context as articles which would be infringing if made in Canada. See Johnston Committee Report, supra, note 26, p. 73. See also the section on "Exhaustion of Design Rights," below in this Chapter.

35. See the section on "Exhaustion of Design Rights," below in this Chapter.

36. See Working Paper on Patent Law Revision, Proposed Patent Law, s. 20(1)(2) for a similar proposal in relation to patent law. A similar provision appears in the Uniform Benelux Designs Law, Art. 14(1), [1974] Industrial Property 177 at 180.

37. U.K. Registered Designs Act 1949, supra note 32, s. 7(1). Johnston Committee Report, supra note 26, pp. 19-20, 57. The Johnston Committee Report, p. 73, notes that the statute ought not to define infringement using the Copyright Act approach of referring to the taking of a "substantial part" of the protected design. The concerns with such an approach are related to the concerns expressed above in Ch. 5, text at notes 45-59, with granting design protection for designs for parts of finished articles.

The reference to original features clearly limits protection to those aspects of the design to which the designer's original contribution gives rise to an entitlement to protection. See Johnston Committee Report, pp. 29-31.

The recommendation of the Franki Committee Report, supra note 16, p. 29 that the words "fraudulent imitation" ought to be retained in defining the scope of protection for industrial designs is not accepted here. Since the very basis for the protection of industrial designs is the visual appeal of such designs, the test of infringement ought to require a finding a copying through a visual comparison of the protected design with the alleged infringing design. The Franki Committee suggests that the statutory reference to "fraudulent imitation" may permit the finding of infringement in some cases in which such a visual comparison would not lead to a finding that the alleged infringing design was a copy of the protected design.

38. Industrial Design Act, supra note 1, ss. 11, 16.

39. Above, Ch. 5, text after note 43.

40. The limitations for the scope of the design inherent in the article to which a registered design is applied vary with the nature of the design and the article. Generally, a design which is a two-dimensional pattern applied to the surface of an article will be less constrained in scope by the articles to which it is applied in the registration than will a design which is for the shape of a three-dimensional article. See above, Ch. 5, text after note 43.

41. The approach to defining scope of protection for registered designs outlined in the text is analogous to that adopted under the present Trade Marks Act, R.S.C. 1970, c. T-10. Under the latter statute a trademark must be registered in respect of specific goods or services in respect of which it has been used. The goods or services for which the trademark is registered thus help to define the scope of protection for the registered mark. However, infringment under the trademark statute is not limited to the association of the registered mark with the type of goods or services for which the mark is registered, but may occur if the mark is associated by the infringer with any type of good or service. Nevertheless, the requirement for finding infringement under the trademark statute is that confusion would be caused between the mark as used by the alleged infringer and the mark as registered. In this finding the nature of the goods or services for which the mark is registered (and with which it has been used by the registrant) play a role, the extent of which varies with the particular circumstances.

Similarly, under the proposed approach (which is the approach under the present law) for industrial designs the nature of the articles to which a registered design is applied in the registration will play a role (which will vary with the particular circumstances) in defining the scope of protection for the design.

42. *Supra,* Ch. 2, text at notes 14-19.

43. See below, text at note 92, for a proposed express exemption for the application of a registered design as an illustration in advertising and otherwise in print and other media. Given the definition of utilitarian article, *supra* Ch. 2, text at note 18, the exemption may be unnecessary, but it could be included for further clarity.

44. *Industrial Design Act, supra* note 1, s. 9. The *Johnston Committee Report, supra* note 26, made a similar recommendation concerning the present U.K. designs legislation, p. 51, and also in respect of the proposed design copyright system, p. 71. The reasons for this recommendation are explored above, Ch. 5, text after note 6, where the function of the register in giving public notice of the claim to design protection is discussed.

45. *Above,* Ch. 4, text at note 30.

46. See *Working Paper on Patent Law Revision, Proposed Patent Law,* s. 23. As in the proposed patent provision, compensation should be collectable only for the period of use of the design after the user has received actual notice of the design application. Of course, compensation would be collectable only if the design were actually registered and the scope of design protection would be determined by the registration in the usual way. The rate of compensation should be that which would be paid by a willing licensee to a willing licensor, and the statute should provide that if the parties cannot agree on compensation the matter is to be settled by the Patent Authority [See *Proposed Patent Law,* s. 23 (3)], or perhaps by an arbitrator appointed by the Registrar.

47. *Industrial Design Act,* s. 15 *supra* text at note 7; *Registered Designs Act 1949, supra* note 31, (U.K.), s.9. *Designs Act 1906-1968 (Australia),* s. 31; H.R. 4530, 96th Cong., 1st Sess., (1979), s. 908; 35 U.S.C. s. 287 (1970).

48. *Copyright Act,* R.S.C. 1970, c. C-30, s. 17(4). *Working Paper on Patent Law Revision,* p. 257.

49. While the proposal made in this paper, *supra* Ch. 3, to replace the novelty requirement with one of originality would further extend the scope of the industrial design system, the present system (with its novelty requirement) is still potentially far-reaching. It would not affect the appropriateness of recommendations concerning innocent infringers if the revised industrial design system were to retain a novelty requirement.

50. Above it was noted that considerable concern has arisen when the copyright system has been extended beyond the traditional field of application in the arts to widespread application in the industrial and commercial realms. *Supra* Ch. 2, text at notes 39-45; 113-125.

51. *Supra*, Ch. 5, text at notes 7 and 8.

52. *Industrial Design Act*, *supra* note 1, s. 14. *Registered Designs Act 1949* *supra* note 31, s. 9. H.R. 4530, *supra* note 44, ss. 906, 907. 35 U.S.C. 287 (1952). Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs, ("Ilsely Commission Report"), p.24.

53. *Supra*, note 18.

54. *Industrial Design Act*, s. 14. Royal Commission on Patents, Copyright Trade Marks and Industrial Designs, *Report on Industrial Designs* (1958), p. 23. ("Ilsley Commission Report"). Paris Convention, London Revision, Article 5D, reproduced in UNESCO, *Copyright Laws and Treaties of the World* (1978).

55. Below, "Exhaustion of Designs Rights," text following note 93.

56. If the remedy of an accounting for profits is available for infringement under the revised statute, the provision recommended in the text ought also to exclude that remedy. See U.K. *Patents Act 1977*, 25 & 26 Eliz. 2, c. 37, s. 62 which expressly excludes accounting for profits. On the desirability of retaining the remedy of an accounting for profits see below, text at note 145.

57. The recommended provision is similar to the U.K. *Registered Designs Act 1949*, *supra* note 31, s. 9(1). The Ilsley Commission Report made the same recommendation as that in the text, pp. 24-25, *supra* note 54.

The *Johnston Committee Report*, *supra* note 26, pp. 58-59, 74, recommended that the U.K. statute s. 9(1) be retained. The *Whitford Committee Report*, *supra* note 15, pp. 47, 50, recommended that damages not be recoverable for infringement unless there had been specific notice of the claim to design protection or notice given by marking articles bearing the design.

58. Below at note 65.

59. The wording in the text follows closely that of s. 9(1) fo the *Registered Designs Act 1949, supra* note 31, (U.K.), with consideration of minor changes reflected in s. 62(1) of the *Patents Act 1977, supra* note 56, (U.K.).

60. The summary in the text owes much to Graham J's interpretation of s. 59(1) of the *Patents Act, 1949,* 12, 13 & 14 Geo. 6, c. 87, in *Lancer Bros. Ltd. v. Henley Forklift Co. Ltd.,* [1975] R.P.C. 307 at 314-19.

61. In *Lancer Bros. v. Henley, supra* note 60, the Court does not appear to have concluded that the defendants actually saw the notices of patents on the plaintiff's machines, but that they ought reasonably to have done sufficient investigation to have seen them.

In *Lancer Bros.* Graham, J. states in considering the proof of not having reasonable grounds to suppose that a patent existed,

> "Another important factor to my mind,... is whether or not the defendant has actually copied the plaintiff's goods. As a matter of common sense, if a defendant copies the goods of the plaintiff he has only himself to blame if he does not ascertain by making all reasonable and proper enquiries whether he is free to do so or not before the starts manufacture." (p. 317).

However appropriate the above statement may be in patent law, it is not applicable to an industrial design system such as proposed here which protects only against copying. It was noted above, text following note 45, that the very broad scope of the industrial design legislation makes it unreasonable to put the entire burden on would-be copiers to establish in every case that design protection does not exist. In addition it was observed that an unqualified "copier beware" approach was not appropriate for industrial designs.

62. If *Khawam (John Khalil) & Co. v. Chellaram & Sons (Nigeria) Ltd.,* [1964] R.P.C. 337 (J.C.P.C.) is interpreted as suggesting that a search of the register is required to avail oneself of the innocent infringement defence, its interpretation ought not to be applied to the provision recommended. Note that this case was interpreting different statutory language from that recommended in the text, "...nor had reasonable means for making himself aware," *U.K. Designs (Protection) Ordinance of Nigeria,* s. 3.

Supra, text after note 51.

63. *Supra,* note 18.

64. *Lancer Bros. v. Henley, supra* note 60 at p. 317. See also *Working Paper on Patent Law Revision, Proposed Patent Law,* s. 61(4), for a provision to deal with cases of marking of multiple notices, some of which are inapplicable. Rather than such a specific provision, it is recommended that the question of such multiple marking be considered within the context of whether there are reasonable grounds to suppose a registration exists.

Note, however, that the *Working Paper on Patent Law Revision, Proposed patent Law,* s. 61(2), would deem a defendant manufacturer or importer of infringing products to have actual notice of the patent if substantially all goods put in circulation in Canada by the patentee have been properly marked with notice of the patent.
Such an approach is not appropriate for industrial designs for the reasons stated here in the text and stated above in the text after note 48.

65. *Industrial Design Act, supra* note 1, s. 14. *Johnston Committee Report, supra,* note 26, p. 59.

66. *Ibid.*

67. *Johnston Committee Report, supra* note 26, p. 59. See *Working Paper on Patent Law Revision, Proposed Patent Law,* s. 61(1).

68. Both the making or importing and the sale or other disposal which occurred before the maker or importer became aware of the registration would not constitute infringement under the proposals made *supra* text at notes 56-59 in respect of making and importing, and below text at notes 76 and 77 in respect of selling and other dealing. However, once the maker or importer had acquired knowledge of the design registration it might also have sufficient knowledge of other facts that it could not avail itself of the limitation of liability in respect of sales or other dealing with designed articles, below text at notes 76 and 77. Consequently the registered design proprietor might be able to enjoin the disposal of the articles, perhaps causing severe financial losses to the maker or importer, unless some special provision is introduced to facilitate the disposal of such articles on reasonable terms.

The *Ilsley Commission Report, supra* note 54, pp. 24-25, indicates that the critical time for the application of the provision proposed in the text in the case of importation ought to be the time at which the importer bound itself by contract to accept the articles on imporation. The test of lack of knowledge and reasonable ground for knowledge of the registration ought to be applied at that time. In addition, any articles that the importer is so contractually committed to accept ought to fall within the right to dispose of articles, whether or not such articles have actually been received in Canada when the importer acquires knowledge or reasonable grounds for knowledge of the registration.

The Ilsley Royal Commission proposed that there be simply a right to dispose of such made or imported articles. The concern expressed, however, in making a similar recommendation for patent law in the *Working Paper on Patent Law Revision,* p. 258, that the disposition of infringing goods not be permitted to interfere unduly with the patentee's [or industrial design owner's] exclusive rights to the Canadian market, is appropriate. Consequently, the provision adopted ought to be similar to the *Proposed Patent Law,* s. 62. The rate of royalty ought to be that which would be paid by a willing licensor to a willing licensee and ought to be settled, if the parties cannot agree, by reference to the "Patent Authority" (See *Working Paper on Patent Law Revision)* or an arbitrator appointed by the Registrar. Like the proposed s. 62 for the patent law, the proposed section for industrial design ought to give the infringer the option of disposing of the articles outside Canada or stocking the articles until the design protection expires.

69. *Supra,* text at note 32.

70. *Supra,* text preceding note 55, it was recommended that importing infringing articles be treated the same in respect of the defence of innocence as making infringing articles.

The *Johnston Committee Report, supra* note 26, p. 73, recommended that importation of infringing articles be included under the more generous (to the infringer) innocence provision along with sale and other dealing, as opposed to the stricter test of innocence proposed for making infringing articles under its proposed design copyright system.

While some instances of importation may be on a small scale and may have more of the character of mere sale of, than of making infringing articles for these purposes, much importation is likely to be on a relatively large scale and thus be more akin to making articles in Canada. In any case importation substitutes for making in Canada and makes possible the further infringements by sale and other dealing. Therefore, like the *Ilsley Commission Report, supra* note 54, it is recommended here that importation and making of infringing articles be treated alike in this context.

The recommendations made below concerning exhaustion of design rights on importation, see below text at note 93, did not appear in the Johnston Committee Report, supra, and will go a significant way to meeting the kinds of concerns that caused the Johnston Committee to treat importation on the same basis as sale.

71. See the several factors which must be shown to establish infringement, supra text after note 47.

The validity of the design registration, one of the factors which must exist in order to have infringement, is largely a question of law and therefore ought not to enter into the definition of innocence in this context. Supra, text preceding note 45.

72. Supra, text preceding note 48.

73. The difficulties would be particularly great when either or both the registered design and the alleged infringing articles originated in a foreign country.

74. In discussing the position of retailers of alleged infringing articles in relation to proposed design legislation in the U.S., Jacques Dulin noted,

> "The major concern expressed by the American Retail Federation [ARF] at the Hearings on S. 1237 was this: What does a presumably innocent retailer do upon receiving a letter from a design-right registrant claiming infringement by certain goods being sold by the retailer? ARF contends that the retailer cannot afford to investigate nor ignore the possible unfounded claims in the letter. To abandon a good line from a valued supplier will result in loss of profits; to continue selling the goods after such notice would draw the retailer into a costly infringement suit. Where the retailer is small and there is a close question of the validity of the registration or of whether there has been copying, such letters alleging infringement could amount to unfair competition." [Footnotes omitted]. Dulin, Statutory Design-Rights: Solution To the Unfair Competition of Piracy (1965) 56 T.M.R. 158.

The proposed U.S. statutory response to the problems [which is also found in H.R. 4530, supra note 15] would be not to make mere selling infringing articles infringement unless the vendor also "induced" or "acted in collusion" with the maker or importer (merely purchasing would not be inducement or collusion), or unless the vendor reordered such articles while refusing to disclose the source of the articles to the proprietor of the design. See H.R. 4530, s. 908(a)(2).

The approach taken in H.R. 4530 is not recommended for adoption in the Canadian statute since it would permit the ordering and selling of articles that the vendor actually knew to be infringing. It is reasonable that design proprietors be able to get pecuniary relief against those who have made profits, and caused financial loss to the proprietor, through such activity.

75. Below, Ch. 10, text after note 12.

76. The reference to the time of ordering or the time of acrepting the articles if not ordered is taken from the *Ilsley Commision Report, supra* note 54, p. 25. It is designed to ensure that dealers will be able to sell or otherwise to deal with specific infringing articles provided that the dealers did not know that those articles were infringing when they were ordered or acquired, whichever occurred earlier.

77. The reference to articles produced outside of Canada is necessary to deal with such articles as they would not be infringing under the Canadian design statute without such a provision simply by being produced in a foreign country. A similar provision in the *Copyright Act,* R.S.C., 1970, c.C-30, s. 17(4) has been interpreted in *Clarke, Irwin & Co. Ltd. v. C. Cole & Co. Ltd.* (1960), 33 CPR 173 (Ont. H.C.) to mean "if produced in Canada by the person who actually produced them", at p. 179. The meaning of the section would be qualified by the proposals made below on exhaustion of design rights and importation. The section of the revised statute referred to in the text ought to state expressly that it is subject to those provisions on exhaustion. See below, text at note 93.

78. The same recommendation concerning onus of proof was made by the Ilsley Royal Commission, *Report on Industrial Designs, supra* note 54, p. 25, and by the *Johnston Committee Report, supra,* note 26, p. 73 for its proposed design copyright system.

79. The reference to "actual" knowledge is intended to distinquish the proposed section from various sections in other legislation which refer simply to knowledge of infringement. For example, see *Copyright Act,* R.S.C., 1970, c. C-30, s. 17(4). That section has been interpreted so as to include constructive knowledge which Lahore describes as, "such notice as would put a reasonable man upon inquiry." Lahore, *Intellectual Property in Austrialia, Service,* p. 68. See *Simon & Schuster et al. v. Coles Book Stores Ltd.* (1975), 23 CPR (2d) 43 (Ont. H.C.) at 45 *per* Weatherston, J., "...there was sufficient notice given in the book to put any

knowledgeable book dealer on inquiries to ascertain where that copyright lay and what rights of resale existed."

See also Godfrey, MacSkimming & Bacque Ltd. et al. v. Coles Book Stores (1973), 13 CPR (2d) 89 (Ont. H.C.) and Clarke, Irwin & Co. Ltd. v. C. Cole & Co. Ltd., supra note 77.

A similar provision appears in s. 5(2) of the Copyright Act, 1956 (U.K.) 4 & 5 Eliz. 2, c. 74 which has also been given a constructive knowledge interpretation. See Infabrics Limited and Others v. Jaytex Shirt Co. Ltd., [1978] F.S.R. 451 (Ch.); on other grounds: [1980] 2 All E.R. 669 (CA); [1981] 1 All E.R. 1057 (H.L.).

The introduction of the reference to actual knowledge is intended to exclude the use of constructive knowledge and in particular to limit the duty of inquiry or investigation that can be imposed on those who merely sell or otherwise deal with infringing articles. See supra text after note 68. The intent is to achieve an interpretation like that given to s. 103 of the Copyright Act 1968, No. 63 of 1968 (Australia) [which does not expressly refer to actual knowledge] in RCA Corporation v. Custom Cleared Sales Pty. Ltd. (1978), 19 A.L.R. 123 (N.S.W. C.A.).

However, the difference between an actual knowledge and a constructive knowledge approach in this context ought not to be over-emphasized. See comment of Lahore, Intellectual Property in Australia, Service, pp. 52-53. Under an actual knowledge requirement the Court would still infer knowledge on the part of the defendant based on the particular circumstances. Under a constructive knowledge requirement, the Court can infer knowledge more broadly, based on the imputed knowledge of a reasonable man in the circumstances, rather than only the reasonably imputed knowledge of the particular defendant in the circumstances as is the case with an actual knowledge requirement.

The implications of the actual as opposed to the constructive knowledge standard are that with the former the Court must look more to the particular circumstances of the defendant, and the particular characteristics of the defendant (see Van Dusen v. Kritz, [1936] 2 K.B. 176) and so limit any duty of investigation on the part of the defendant. See RCA v. Custom Cleared, supra, at p. 126.

80. The Ilsley Commission Report, supra, note 54, p.25 recommended an innocence exception in respect of infringement by sale or other dealing in infringing articles that would have required the plaintiff to prove that the defendant, "knew or had received notice from the registered proprietor that the design was registered, and also knew or had received

notice from the registered proprietor that the design was not applied to the article with the consent of the registered proprietor."

If this form of a provision were adopted in revised legislation as proposed in this paper, the second branch of the Royal Commission's proposed section would have to be modified to reflect the fact that the system proposed in this paper gives protection only against copying whereas the Royal Commission's proposed system would have given monopoly protection. In particular, the second branch of the Royal Commission's proposed section refers to notice only of the fact that the registered design proprietor has not consented to the application of the design. This reflects the fact that under a monopoly system of protection once the defendant has notice of the existence of the registration and of the alleged infringing article, it becomes a question of the interpretation and application of the law as to whether the article is infringing, *i.e.,* whether the article is sufficiently similar to the protected design to be infringing. However, under a system which protects only against copying mere similarity between the infringing article and the protected design may not be sufficient to infer copying. Consequently, under the design system as proposed here, the second branch of a provision like that proposed by the Royal Commission ought to refer to knowledge or notice of both the fact that there was copying and that such copying was without the consent of the design proprietor. Providing a basis for knowledge of the fact of copying to the defendant would involve providing or pointing to the facts which would yield a reasonable inference that copying had taken place.

81. *Supra,* note 68. *Ilsley Commission Report, supra* note 51, p.25.

82. *Registered Designs Act 1949,* 12, 13 & 14 Geo. 6, c. 88, s. 7(1) (U.K.); 35 U.S.C. s. 271 (1976) (for U.S. design patents).

83. *Working Paper on Patent Law Revision,* pp. 198-199.

84. The defence of innocent infringement (*supra,* text after note 56 and after note 75) should not be applied in this context to determine whether direct infringement has occurred, *i.e.,* the knowledge of the person to whom the means of infringement are supplied is not directly relevant. In the majority of actual circumstances, however, such person will likely be a knowing infringer.

85. The language in the text follows, with some significance modifications, the language of *Working Paper on Patent Law Revision, Proposed Patent Law,* s. 21(1), which in turn was *influenced by the Convention* for the European Patent for the Common Market (1975), Art. 30. The *Patents Act,* 1977, 25 & 26 Eliz. II, c. 37, (U.K.), s. 60(2), (3), (6) is also modelled on the Convention article.

The provision proposed in the text would limit indirect infringement to circumstances in which the means supplied are suitable in their ordinary use, solely for making articles bearing an infringing design. This would appear to be the interpretation given to s. 7(1) of the present U.K. designs legislation, *supra* note 78. In *Berdale Cycle Co. v. Charles Twigg & Co.* (1952), 69 R.P.C. 137 the Court, *per* Lloyd-Jacob J., stated in interpreting s. 7(1) that it was to, "extend to the manufacture of some thing which, when used in the usual manner for its usual purpose, will result in the production of the article as designed. A typical instance would be the construction of a printing roller for textiles, the surface of which could not be used for its normal purpose without producing that design." Quoted in Fysh, *Russell-Clarke on Copyright in Industrial Designs*, 5th Ed., (1974) p. 81. This limitation is unlike s. 21 of the *Proposed Patent Law* or s. 60(2) of the *Patent Act 1977* (U.K.), both of which appear to include the supply of means which are essential to applying the invention but which may not be exclusively useable for such a purpose. In the proposal made in the text it is intended to exclude, for example, the supply of some production machine which may be essential to the production of infringing articles, but not uniquely adapted to that use, even though the supplier might know that the person to whom it is supplied intends to use it to produce infringing articles. Thus a standard piece of production machinery, *e.g.*, a drill press, which was essential to produce the design but not uniquely adapted to that purpose would be excluded by the section as proposed.

The section proposed in the text also requires actual knowledge by the supplier that the person to whom the material is supplied intends to use the thing supplied to infringe the registered design. The purpose of this provision is to exclude liability in the case, for example, of a supplier of production moulds who receives an order to produce a mould that, unknown to it, is to be used to produce articles which will infringe a registered industrial design. A showing of actual knowledge will require a showing of knowledge of facts from which it can be reasonably inferred that the defendant knew of the design registration and knew that the means would be used for direct infringement, *i.e.*, knew that they would be used to produce copies of the registered design without the consent of the proprietor of the design.

86. Below, text at notes 89-82. See Proposed Patent Law, s. 21(2), supranote 85, for a recommendation for a similar provision. The persons exempted would include those importing and distributing goods under the proposed exhaustion of design rights proposal, below text at notes 93ff.

87. Dorling v. Honnor, [1964] R.P.C. 160 (CA) at 165-166, 170-171. See Patents Act 1977 (U.K.), supra note 85, s. 60(6) for a similar provision.

88. See Working Paper on Patent Law Revision, p. 199 for a similar recommendation and where reference is made to the similar policy under the U.S. legislation. See also Patents Act 1977, (U.K.) supra note 85, s. 60(2) which has a similar policy.

The Canadian design legislation should not make the supply to foreign countries of means for infringing an infringement under Canadian law even if such means for infringing are to be imported back into Canada for use. Canada ought to enact statutes with an extra-territorial reach only where clearly justified, for practical (problems of enforcement) and principled reasons (we wish to object when other countries make their legislation reach into Canada). Design proprietors will generally have remedies against those who use the means to infringe in Canada and therefore will not be without protection.

It would also be inappropriate for Canadian law to provide that the supplying of means for infringing within Canada for use outside Canada was infringement of Canadian law. It would be anomalous if those means were for use in a jurisdiction where their use would not constitute infringement under the local law, e.g., because the design was not protected under that law. To make the question of whether the supply of means in Canada was an infringement under Canadian law depend on whether their use in some foreign country would infringe under that country's laws would be introducing considerable complexity into Canadian law for little or no benefit to the Canadian public. If the design proprietor has remedies under the foreign law, it ought to be left to pursue them in such circumstances.

It is noted that on the issue of a provision for indirect infringement, the Ilsley Commission Report, supra note 51, p. 25, recommended that there be no such provision but gave no reasons for that recommendation. The Franki Committee Report, supra note 16, p. 30, recommended that there be no such provision in Australian law after referring to the "problems" of such a provision made evident in Dorling v. Honnor, supra note 87. Presumably those problems were the fact that the Court, per Harman L.J. at 166, could not see how s. 7(1) of the Registered Designs Act 1949 could be limited to exclude the supply of ordinary articles of commerce, e.g., "screws and glue." The provision proposed in the text, being limited to means solely adapted for use in infringement does not have that problem.

Finally, it is not proposed that there be any further statutory extension of indirect infringement than that indicated in the text. The ordinary interpretation of the infringement provisions as to include joint tortfeasors and those who actively induce others to infringe will provide adequate protection. See Working Paper on Patent Law Revision, p. 198, referring to Slater Steel Industries v. R. Payer Co. Ltd., (1968) 55 CPR 61 (EX. Ct.). It is not recommended that there be a reference to "authorizing" infringing acts by others as being itself infringement as appears in the Copyright Act, R.S.C. 1970, c. C-30, s. 3(1). That provision reflects the unique problems and history of copyright in respect of infringement by such acts as public performances which does not apply to industrial designs. See Lahore, Intellectual Property in Australia: Copyright(1977), pp. 233-238.

89. The Industrial Design Act, supra note 1, ss. 11, 15, reflects this policy explicitly to a limited extent in that infringement through application or imitation of a protected design can only occur if "for the purposes of sale."

Limitations to protection for commercial exploitation are widespread in the design laws of other countries: Registered Designs Act 1949 (U.K.), supra note 82, s. 7(1); Uniform Benelux Designs Law, (1974) Industrial Property 178, Art. 14: The Nordic Design Laws, (1971) industrial Property 223, s. 5; H.R. 4530 (U.S.), supra note 15, s. 908. See also Working Paper on Patent Law Revision, Proposed Patent Law, s. 24; Patents Act 1977 (U.K.), supra note 85, s. 60(5).

90. This recommendation, in effect, continues the present law, supra, note 89, and is similar to the law under the Registered Designs Act 1949 (U.K.), supra note 82, s. 7(1).

91. See Working Paper on Patent Law Revision, Proposed Patent Law, s. 24(1) (b) and Patents Act 1977 (U.K.), supra note 85, s. 60(5)(b). While permitting experimentation without infringing may not be as critical in respect of industrial designs as patents (as the former does not protect technology), permitting experimentation is very desirable in

order to facilitate development of designs and the means of producing them.

A qualification to the experimentation exemption like that in the Proposed Patent Law, s. 24(1)(b) and Patents Act 1977 (U.K.) limiting experimentation to the subject matter of the design, and perhaps adding reference to methods of producing the design, would be appropriate.

92. H.R. 4530, supra note 15, s. 908(d). Such a section may, strictly speaking, be unnecessary, supra note 40b. Inclusion of such an exemption may, however, prevent any confusion from arising about the scope of protection for designs in this respect.

93. Supra, text at note 35.

94. "Legal persons" or "entities" include individuals, partnerships and corporations. Under the design law of most countries, including Canada, each of these types of legal person may own and deal in rights in industrial designs.

95. Economic Council of Canada, Report on Intellectual and Industrial Property (1971), p. 125. ("Economic Council Report")

96. The hypothetical assumes a two-country world for simplicity. The hypothetical could be extended to a multi-country world without affecting the point being demonstrated.

97. The assumption is that the costs of production in the other country are sufficiently low that it is economic to produce in that country for the Canadian market even in the light of transportation, tariff and other costs of exporting to Canada from that country.

98. "Monopoly returns" refers to returns attributable to the design proprietor's general rights to exclude others from taking the design. Under the industrial design system proposed here, as under copyright systems, the right to exclude is a right to prevent copying only. Under other design systems the right to exclude extends to reproduction of the design whether by copying or independent production of the same design. The purpose of the design system is to make such monopoly returns available to design proprietors so as to prevent market failures which would otherwise occure and result in a less than desirable level of industrial design activity. Supra, Part I.

99. The Canadian company might try to protect itself against such competition by terms in the foreign licence agreement (or a term in the contract of assignment) which prohibited the foreign company from selling designed products for export to Canada. Such clauses might be contrary to the competition laws of some foreign countries. In addition it might be very difficult for the foreign company to police effectively what all purchasers of designed products from it did with the products purchased so as to ensure that none were exported to Canada.

It should be noted that in this type of situation the Canadian company which assigns or licenses the design will typically receive revenue from the foreign assignee or licensee in the form of royalties or a price for the assignment. The Canadian company would thus be compensated for the designed products that were exported by the foreign company to Canada. The existence of such compensation leads to the argument that it is reasonable not to permit the Canadian company to use its deisgn rights to prevent such importation, since the company would be receiving compensation for its design rights in respect of all designed products sold in Canada. The acceptability of this argument to the Canadian company would depend, in part, on the level of compensation it was receiving from the foreign company for the use of its design rights. For example the Canadian company may have agreed to a relatively low level of compensation in order to break into a difficult foreign market for the first time. Compensation for the use of design rights received in such circumstances would likely be regarded as inadequate to compensate for the losses of its Canadian markets suffered from importation.

In circumstances like that noted above and in the text, the result of giving the proprietor of the Canadian design rights the power to exclude importation will be that Canadian purchasers of the designed products will tend to pay higher prices for these products.

100. "Dumping" involves the sale of goods in Canada at prices below their fair market value in the country of origin of the goods. Dumping may occur when a producer in a foreign country has an over-supply of goods which it does not want to dispose of on its home market as that would drive down prices in that market. In order to dispose of the goods the supplier "dumps" them in the Canadian market at a very low price. Action can be taken against dumping under the Anti-Dumping Act, R.S.C. 1970, c. A-15.

101. The reference to the "same proprietor" would include the various forms of international corporate ownership and

control involving subsidiary corporations which may own design rights in various countries, but all of which are ultimately under the control of a single owner.

A price discrimination effect can occur when the ownership of design rights in Canada and in other countries are in different hands. For example, if an unrelated entity may have taken an assignment of Canadian design rights, it may use those rights to ensure that it is the exclusive importer of the designed product. A similar kind of price differential between Canada and foreign markets can thus arise, enforced by the Canadian industrial design rights if they permit the blockage of importation, as would arise in the case in which a single proprietor has Canadian and foreign design rights.

102. Paris Convention, *supra* note 54, Article 2(1) guarantees the nationals of any member country of the Union the same rights under the industrial design laws of each member country as each member gives to its own nationals. This is the principle of "national treatement," which prohibits member countries from discriminating against foreign applicants. Article 4 of the Convention gives any person which has filed an application for an industrial design in any member country a right of priority for six months for obtaining design protection in other member countries.

103. *Supra*, Part I.

104. Economic Council of Canada, *Report on Intellectual and Industrial Property* (1971), p. 44.

105. The law in respect of the use of industrial design rights or their equivalents (copyright, design patents) to exclude imports varies among different countries. However, it appears that at least some foreign countries have industrial design and/or tariff law which permits the use of industrial design protection to block imports in at least some circumstances. For example the law of the U.K., and probably Australia and New Zealand, is similar to that described below in the text under the heading "Current Canadian Law." Substantial exclusion of imports is also possible under U.K. copyright law, see *Polydor Limited et al. v. Harlequin Record Shop Limited et al.*, [1980], 1 CMLR 669 (Eng. H.Ct., Ch. D.). [1980] 2 CMLR 413(CA) See also, Cornish and McGonigal, Copyright and Anti-trust Aspects of Parallel Imports Under Australian Law, (1980) 11 IIC 731.

The U.S. law in respect of importation and design patents may be similar to the Canadian and U.K. law. See the comments of Rudd, J. in *Beecham Group Limited v. International Products*

Limited, [1968] RPC 129 (H. Ct. Kenya) at 134. In addition, the Tariff Act of 1930, 19 USC s. 1337 (1976) permits the exclusion of articles from the U.S. in cases of design patent infringement if they amount to, "unfair acts in the importation of articles...tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States...." See Brunsvold, Brian G., Section 337 United States Tariff Act: A Revived Weapon Against Foreign Patent Infringers (1979) 10 IIC 52.

See also Reimer, D., Copyright Law and the Free Movement of Goods, (1981), 12 IIC 493 at 494-499 for brief descriptions of the German (Federal Republic), Austrian, U.S., Swedish, British, French and Belgian law on imports and copyright (which can apply to designs).

106. Industrial Design Act, supra, note 1, s. 16(1)(b). R.v. Premier Cutlery Ltd. (1980), 55 CPR (2d) 134 (Ont. Prov. Ct.) at 144 and 149.

107. Industrial Design Act, supra, note 1, s. 16(1).

108. Betts v. Willmott (1871) LR 6 Ch. 239. When an article bearing the registered design is sold by the registered proprietor of the design, the purchaster receives an implied licence under the design registration to resell the article. Any purchaser from the first purchaser receives a similar implied license. Such a licence can be prevented from arising only if the purchaser receives express notice at the time of the purchase that there will be no such licence.

It appears that even though the sale of the designed product by the registered proprietor of the design under the Canadian statute takes place in a foreign country, an implied licence arises under Canadian law in respect of the right to sell the designed product in Canada.

109. Societe Anonyme Des Manufactures De Glaces v. Tilghman's Patent Sand Blast Company 1883) 25 Ch. D. 1 (CA). Beecham Group Limited v. International Products Limited et al., [1968] RPC 129 (Kenya H. Ct.).

110. The definition of "related persons" for these purposes should be drafted so as to include reference to individuals and partnerships which may be owners of industrial designs and which may own shares in, and control corporations.

The statutory section providing for exhaustion must be such as to exhaust all industrial design rights in respect of the specific articles put on the market by the registered proprietor or a related person (as defined). The purpose is to ensure that such articles can not only be imported but also sold, hired, offered for sale or for hire, and stocked for such purposes without being infringing. For example, the statutory language could be adapted from s. 25(1) of the Working Paper on Patent Law Revision, Proposed Patent Law somewhat as follows:

> Once a registered proprietor of an industrial design, or any person deemed under this section to be related to the registered proprietor has consented to specific articles to which a design has been applied which falls within the scope of the registered design being introduced into the market anywhere* in the world, no action for infringement may thereafter be taken with respect to such specific articles.

[*See, however, recommendation in text at note 113.]

There would follow a subsection which defined a related person to the registered proprietor to be a person such that the person controlled, directly or indirectly, the proprietor, or vice versa, or both the person and the proprietor were controlled directly or indirectly by the same person. Control would be defined as voting share ownership sufficient to elect a majority of the board of directors. The reference to indirect control is necessary to include complex arrangements of corporate ownership which yield control, for example, when one person owns a majority of the voting shares of three corporations each of which owns less than a majority of the voting shares of a fourth corporation but the total of which constitutes a majority of the voting shares of the fourth corporation.

The suggested statutory section above in this note would provide for exhaustion of design rights exclusively within Canada, as well as in cases of importation.

The reference to "specific" articles is intended to ensure that there will be no confusion that the section means that articles of a type or kind no longer enjoy design protection.

111. Supra text after note 100.

112. The proposal in the text does not refer to the case in which a registered proprietor of design rights in Canada and in foreign countries does not assign, but licenses the design to another to use in Canada.

An assignment involves a transfer of rights in the registered design from assignor to assignee such that the assignor has no continuing proprietary interest in the design rights assigned. A licence is a contract (as most licences of designs will not be gratuitous) in which the owner of the registered design as licensor gives permission to the licensee to use the design. Under a licence the licensor remains the owner of the design rights licensed. Licences can be "exclusive" in which only the licensee may use the design and may exclude use even by the licensor and proprietor of the design. Licences can be "sole" in which there is only one licensee but that licensee cannot exclude use of the design by the licensor. In "ordinary" licences there may be more than one licensee in addition to the fact that the licensee is not entitled to exclude use by the licensor.

It would clearly be beyond any right inherent in the licences to permit sole and ordinary licensees the right to exclude importation of designed articles which originated with the proprietor or a person related to the proprietor. The only type of license for which consideration might be given to giving the right to exclude imports of designed articles orginating with the proprietor would be the exclusive license.

Unless a specific provision were introduced into the statute to provide otherwise, exclusive licensees would not be able to exclude designed articles which originated with the proprietor or a related person. The proposal made below (text at note 122) to give licensees the right to bring infringement actions would not alter that position. See CBS United Kingdom Ltd. v. Charmdale Record Distributors Ltd., [1981] 1 Ch. 91 for a similar result under the U.K. Copyright Act 1956.

On the question of whether exclusive licensees ought to be treated the same as assignees in this respect it should be noted that one of the reasons for not including persons related only through arm's length assignments to the proprietor of the registered design in Canada is that in such cases it would be more likely that the right to exclude imports was being used to protect Canadian manufacturing of designed articles rather than merely to enforce price discrimination. Thus exclusive licensees of the Canadian design rights ought to be treated the same as assignees in their power to exclude imports only if the licensees receive licences to make the designed articles in Canada, and not merely rights to import and sell.

It should be noted, however, that the power both to assign and to license registered designs in part as well as in whole (supra Ch. 6, text at note 37) would mean that assignments (as well as exclusive licenses if they were to carry the power to exclude imports) could be structured so as to ensure that they were not used in respect of Canadian making of designed articles, but only importation. If an assignment were made only of the rights to import and to sell, etc. in Canada, with the assignor retaining the right to manufacture in Canada, an assignor which owned design rights in other countries and manufactured the designed articles in a foreign country could ensure that all designed articles sold in Canada were imported (presumably from its factories in foreign countries) as it would still own the exclusive right to manufacture in Canada. The assigned rights to import, to sell, etc. in Canada could then be used to enforce international price discrimination against Canada.

In order to prevent such a result, a statutory provision ought to be added to the revised industrial design statute which provides that in respect of any question of importation, sale or other dealing with an article bearing a design without the consent of the registered proprietor of the design (i.e., in respect of a question of infringement by such dealings), the relevant proprietor of the industrial design shall be the person who is the registered proprietor of the right to make articles bearing the design in Canada. See UK Copyright Act 1956, 4 & 5 Eliz. 2, c. 74, s. 49(6) for such a section.

If exclusive licensees were given the right to exclude imports under the revised industrial design statute, the above section would also prevent the use of exclusive licences in such a manner, as well.

The other arguments which suggested that arm's length assignees be permitted to exclude imports were that without such a right others would be able to import designed articles from the assignor that would take a "free ride" on the assignee's investments in distribution, promotion, service networks, etc. On the other hand, when designed goods are imported from one of a group of companies related (through majority ownership and control) to the proprietor of the design in Canada, profits from the sale of those products go to the group of which the proprietor of the Canadian design rights is a member and so compensate for the distribution and other expenses in Canada. Further, the group of related companies has the incentive, and may often have the means, to ensure that products sold for importation into Canada are sold at prices high enough to recover a reasonable share of the distribution and other costs in Canada.

The issue is whether exclusive licensees are more like assignees, or whether they are more like an arm of a group of related companies, for these purposes. Given the variety of actual legal and business relationships that may take the form of an exclusive licence, it is difficult to make a generalization. Some exclusive licence relationships may in fact function more as if the licensee was an arm of a group of related companies. In fact, unlike the assignment situation, the licensor does retain a continuing proprietary interest in the design. The licence may call for financial contributions from the licensor to the licensee for initial distribution, service network and other such costs. The fact that the licensor and licensee are in a continuing relationship means that it is at least possible that adjustments can be made to the terms of the licence to compensate the licensee for losses that are thought to occur through importation of articles originating from the licensor and related companies.

Other exclusive licences may in fact function much more as if the licensee were in a position analogous to an assignee.

One problem of treating assignees and exclusive licensees differently in respect of the right to exclude importation is that there will then be an incentive to structure what would otherwise have been exclusive licences so that they appear to be assignments. In fact the distinction between exclusive licences and assignments in some instances is, conceptually and legally, not easy to make given the great flexibility available in arriving at the terms of both licences and assignments--which means that they can have very similar terms and that terms can be introduced into one which tend to give the effect of the other. If there were a determination to treat assignments and licences differently in this repect, it might become necessary to introduce a statutory definition of assignment. [The essential difference between licences and assignments may be that in a licence the licensor retains an interest in the registered design in the nature of a right of reversion, which is not the case in assignment. Consequently an "assignment" which gives the assignor the right to demand a reassignment of the registered design to it in certain circumstances might more properly be regarded as a licence.]

It is recommended that no section be introduced into the revised industrial design statute which would cause exclusive licensees to have the same rights as are proposed in the text for assignees to exclude imports. If exclusive licensees were given such a power, there is a risk that design proprietors would endeavour to circumvent the proposed rules concerning exhaustion of design rights by arranging exclusive licences. It would be more difficult for such proprietors to circumvent the proposed exhaustion rules through a true assignment and still retain control over the registered design in Canada.

113. Supra, text after note 98. The Economic Council of Canada recommended that there should be no right to restrict imports of designed articles from other countries where the design enjoys design protection. See Report on Intellectual and Industrial Property (1971), p. 125.

114. Supra, text at note 109.

115. The section would have to be so drafted as to recognize that the specific articles could have been placed on the market in several countries before they were imported into Canada. For example, the articles could have been made and sold in one country in which there was no protection, then exported to and sold in a second country in which there was protection and from which the articles were purchased for importation into Canada.

The statute should be drafted so that importation is permitted in circumstances in which the design was protected under the design legislation of the country of origin of the imports at one time, but was not protected at the time of the importation because, e.g., the term of protection of the design had expired through the effluxion of time.

The reference to similar protection is intended to include cases in which the industrial design does not enjoy industrial design protection but does enjoy copyright (e.g., in the U.K., U.S., Federal Republic of Germany or France), design patent (U.S.), or unfair competition protection in the country of origin of the imports.

It should not be necessary to demonstrate that the design protection in the country in which the articles were marketed was owned by the registered proprietor of the design in Canada, or by a person related as defined. All that need be shown is that there was protection and that such persons marketed the specific articles in that country. In other words, if the registered proprietor sold specific articles in another country in infringement of the design rights in that country, the proprietor should be estopped from objecting to the importation of such articles into Canada.

116. Supra, Chap. 2, text at notes 42-45, the problems caused by difficulties in securing information about the state of copyright protection, if any, are considered. There it is recommended that the revised Canadian law carefully exclude the application of copyright to industrial design, in part because of these problems. In the light of that recommendation it would be inappropriate to place the burden

of proof concerning knowledge of the state of design protection in the foreign country upon the importer of articles into Canada. See below text at note 105d.

117. One method of showing that the importer had such reasonable grounds to suppose that no protection existed would be to show that actual notice of such lack of protection had been given to the importer by the plaintiff. Of course, such a notice would be effective to make infringing only the importation of such specific articles as the importer had acquired or committed itself to acquire after the notice was given.

118. These observations may lead to the conclusion that any section in the revised statute dealing with a requirement of the existence of protection in the country of origin of the imports refer not to the existence of actual protection for the particular industrial design but only to the possibility of securing protection. On this view the only countries from which imports would be excluded would be countries which had no protection for industrial designs of any kind in their law. Therefore an alternative to the proposal in the text for such a section might be a provision permitting regulations to be made, on application of interested person, deeming particular countries to be those which did not offer protection to industrial designs. The statute would then provide that if the plaintiff in an infringement action could prove that the specific articles imported had been placed on the market prior to importation only in such countries, then no importation would be permitted.

119. Supra text at note 114.

120. Supra Ch. 2, text after note 74.

Supra, Ch. 2, at text note 69, it was also recommended that the Copyright Act be amended to provide that when copyright subsists in a work and a corresponding industrial design is registered, it shall be deemed not to be infringement of copyright in the work to do anything within the scope of protection acquired under the industrial design registration during the term of that registration. It was also recommended that there be a broadening of loss of copyright after the expiry of the industrial design registration to everything that would have been within the scope of protection for the industrial design registration extended to all associated designs and articles.

This note is a warning about a possible problem of interpretation of all of these loss of copyright provisions if they are drafted to define loss of copyright exclusively by reference to the scope of protection of the corresponding design under the Industrial Design Act as revised. While the possible interpretation would yield a bizarre result, and therefore may be unlikely, a result described a "bizarre" has been reached in the interpretation of the U.K. legislation (which probably applies to the present Canadian legislation) in a not dissimilar problem of the relation of copyright and industrial design. Supra, Ch. 2, text at notes 9 and 77.

If as recommended, supra text at note 110, the revised Industrial Design Act provides that importation of designed articles does not constitute infringement (generally, when the articles were put on the market by the proprietor or a related entity), the proposed sections in the Copyright Act might be interpreted so as not to prevent such importation from being infringement of copyright since such importation would not be within the scope of protection acquired under the industrial design registration. Since the Copyright Act does appear to make infringing at least some instances of the type of importation proposed to be exempted under the Industrial Design Act (below, note 123), it may be necessary to draft the proposed provisions in the Copyright Act carefully to ensure that the loss of copyright extends to the types of importation of designed articles exempted under the revised Industrial Design Act.

Note that a similar problem may occur in the respect of the defences of innocence proposed for the Industrial Design Act in respect of infringement by sale of infringing articles, supra, text at note 72. Again, provisions in the Copyright Act which defined the loss of copyright exclusively by reference to the scope of industrial design protection acquired might be interpreted to permit copyright protection to apply to cases of sale of infringing articles in which a remedy under the industrial design statute would be barred by the proposed defences of innocence.

121. "Designed product" refers to the application of a work protected by copyright to a utilitarian article so as to create an industrial design as defined, supra, Ch. 2, text after note 13. It does not refer to an artistic work protected by copyright which is reproduced in some other form.

122. See the reasons given supra, Ch. 2., text at notes 59-63 and 32-57.

123. Copyright Act, R.S.C., 1970, c. C-30, s. 17(4). Copyright in Canada: Proposals for a Revision of the Law (1977), p. 203 recommended no change in this section. See

Clark, Irwin & Co. Ltd. v. C. Cole & Co. Ltd. (1960), 33 CPR 173 (Ont. H.C.); Godfrey, MacSkimming & Bacque Ltd. v. Coles Book Stores Ltd. (1973), 13 CPR (2d) 89 (Ont. H.C.); Simon & Schuster Inc. v. Coles Book Stores Ltd. (1975), 23 CPR (2d) 43 (Ont. H.C.). Similar provisions in the U.K. Copyright Act 1956, 4 & 5 Eliz. 2, c. 74, ss. 16(2), (3) have been interpreted in Polydor Limited et al. v. Harlequin Record Shop Limited et al., [1980] 1 C.M.L.R. 669, [1980] 2 C.M.L.R. 413 (Eng. C.A.); C.B.S. United Kingdom Ltd. v. Charmadale Record Distributors Ltd., [1981] 1 Ch. 91. The copyright provisions would make infringing, for example, the importation of articles produced abroad by a legal entity which was related by corporate ownership and control to the owner of the Canadian copyright.

124. Note the recommendation, supra, Ch. 2, text at note 94, for a statutory presumption, which would be rebuttable, that any application of a work as a design and marketing of articles bearing the design took place with the consent of the relevant copyright owner.

The recommendations in the text in respect of copyright being lost by marketing of designs anywhere and in respect of consent being that of the owner of the copyright of the place in which such marketing takes place are contrary to the recommendations of the Johnston Committee Report, supra note 26, pp. 91-92. The U.K. Copyright Act 1956, supra note 112, s. 10(2) as amended by the Design Copyright Act 1968, 11 & 12 Eliz. 2, c. 68 provides that copyright is lost in a work when articles bearing a corresponding design have been marketed anywhere, but appears to provide that the application of the work as a design must be with the consent of the owner of the U.K. copyright, and perhaps that the application of the work as a design must take place in the U.K. Of course, under the 1968 U.K. amendments no loss of copyright is to occur until fifteen years from the first marketing of such articles.

The Franki Committee Report, supra note 16, pp. 59-60, however, made the same recommendations for Australian law as is made in the text for Canadian law. Copyright is to be lost if the work is applied as a design anywhere with the consent of the owner of copyright in that jurisdiction and if articles bearing the design are published or marketed anywhere.

125. Supra, text at note 110.

126. The person who wished to discover whether he was entitled to import or to manufacture in Canada would be the one facing these difficulties. Since the Berne Convention,

supra Ch. 2, notes 42 and 43, prohibits requiring registration or marking as a condition of copyright protection neither of these means are likely to be available in many countries to establish the state of copyright protection. Supra, text before note 120, the lack of availability of data about corporate ownership links was noted.

127. Such a requirement might also be coupled with a statutory right to dispose of any articles imported, contracted for, or received prior to notice of the state of copyright ownership.

128. A statutory provision which gave the manufacturers rights analogous to "intervening rights" proposed for patent law (see Working Paper on Patent Law Revision, pp. 242-244) would not provide a satisfactory solution for the copyright owners and would thus introduce complexity into the statute for little or no benefit.

129. See supra Ch. 3, text at notes 45-47 for the proposed originality requirement.

See below Ch. 9., for recommendations concerning invalidation of design registrations.

130. Johnston Committee Report, supra note 26, pp. 78, 31-32, 26-29.

131. Supra, Ch. 3, text at note 45.

132. Particularly when there is an examination as a prerequisite to securing protection, intellectual property statutes frequently provide for a presumption of the validity of protection. See Patent Act, R.S.C. 1970, c. P-4, s. 47. The present Industrial Design Act, R.S.C., 1970, c. I-8, s. 7(3) provides that the certificate of registration is, "sufficient evidence...of the originalty of the design...." Presumptions of the existence of protection are also provided for in copyright statutes in which there are no mandatory registration requirements. See Copyright Act, R.S.C. 1970, c. C-30, s. 20(3); Copyright Act 1956 (U.K.) 5 & 6 Eliz. 2, c. 74, s. 20.

133. H.R. 4530, supra, note 15, s. 908(e).

134. Supra, Ch. 3, text at notes 27-31, 49 and 53.

The quality of examination possible by the Office would increase if the size of the Office staff and the resources available to it werer to be substantially increased.

However, given the difficulties in doing an adequate search and examination (see reference to Ch. 3., supra), the additional resources required would be very large and would not represent a cost effective investment for the government, or for applicants who would bear most of the additional costs through application fees.

135. Industrial Design Act, supra note 132, s. 7(3); Registered Designs Act, 1949, 12, 13 & 14 Geo. 6, c. 88, s. 17(3); H.R. 4530, supra note 15, s. 913. Supra Ch. 5, text at notes 9 and 11, it was indicated that one of the advantages of a registration system is that it provides a method of clearly establishing the term of protection and can assist the proprietor in establishing title to the design.

136. As a high proportion of Canadian registered industrial designs are owned by non-Canadians, it may be that this problem is potentially more likely to occur in Canada than in some other countries. Licensees of designs who are resident in Canada may find that non-resident proprietors of designs are more difficult to deal with in respect of infringement of their designs in Canada.

137. All licencees should have this right and not merely exclusive licensees. See the U.K. Copyright Act 1956, 5 & 6 Eliz. 2, c. 74, s. 19 for a section limited to exclusive licensees.

138. See Trade Marks Act, R.S.C. 1970, c. T-10, s. 49(4) for a section of this type. The specified time period in that section is two months.

139. Copyright Act 1956, supra note 137, s. 19(3) provides that although an exclusive licensee cannot proceed with an infringement action without the owner of copyright being joined as a party (unless the court gives leave to do so), this requirement is not to affect the granting of an interlocutory injunction to the licensee. Thus licensees could be given the right to secure interlocutory injunctions without the procedure of notice to the proprietor.

140. See Working Paper on Patent Law Revision, p. 256 and Proposed Patent Law, s. 60(4), (5).

141. Ibid.

142. Compelling the joining of all licensees creates other potential difficulties. For example, there is the question of whether special provisions ought to be introduced for licensees who cannot affort to participate in the action, but who could agree to abide by the litigation and reserve a

right to claim damages. See Working Paper on Patent Law Revision, p. 256.

A number of potential problems with such a provision have not been dealt with. For example, what should be the relation between the terms of the licence agreement and the statutory right of licensees to bring actions, i.e., should contracting out or modification of the statutory right be permitted. Generally, it is recommended that such modification not be possible as it might tend to defeat the purposes for introducing the statutory section. Other issues will arise as to the conduct of the action such as the role of the proprietor, i.e., ought the proprietor, as such, to have the power to take over conduct of the action. Such issues are left for discussion arising both out of this recommendation and that of the Working Paper on Patent Law Revision (supra, note 126). Generally, there appears to be no reason why the provision in the patent law and industrial design law ought not to be the same in this regard. The nature of trademarks in indicating the origin of goods may justify a different treatment which gives the owner of the trademark greater control over the action, supra note 138.

143. Supra Ch. 6, text at note 40, deals with registration of assignments and licenses.

See Working Paper on Patent Law Revision, p. 259, Proposed Patent Law, s. 64 for a similar recommendation.

Since there will often be a necessary lag between transfers of interests and opportunity to register, it may be necessary to stipulate some time period within which registration must take place. See, for example, U.K. Patents Act 1977, supra, note 81, s. 68 which provides for a period of 6 months, and also for a futher extension if the comptroller is satisfied that registration is not "practicable." A six month period may be too long and the provision for an extension may generate confusion as to when it is available and so cause more difficulty than it is worth.

The recommended provision should be drafted so that it excludes the right to sue for any damages prior to the period during which the assignment or licence was registered, including any right to sue for damages for infringement prior to the assingment or licence taking effect. This would avoid the criticisms that have been made of the U.K. Patent Act 1977, s. 68. See Blanco White, Encyclopedia of United Kingdom and European patent Law (1977 and 1981), s. 10-125 at notes 75b and 75c. Problems that are noted under the U.K. patent legislation might not arise in any case, of course, as no express right to assign the right to sue for past infringement is recommended for the Canadian design law as appears in the U.K. Patent Act 1977, s. 30(7). Such a right may not exist otherwise in Canadian law. See Fox, Canadian Patent Law and Practice, 4th Ed., (1969), pp. 284-285.

144. Working Paper on Patent Law Revision, p. 258 referring to a similar recommendation in the Royal Commission on Patents, Copyright, Trade Marks and Industrial Design, Report on Patents (1960), p. 105.

145. Copyright Act, R.S.C. 1970, c. C-30, s. 21.

146. Johnston Committee Report, supra note 26, p. 78. Report of the Committee to Consider the Law of Copyright and Designs, Copyright and Designs Law (1977), U.K. Cmnd. 6732, p. 189.

147. Articles would be infringing, and subject to the discretionary power of an order of disposition, only subject to the recommendations made supra, text at notes 56 and 76, on the defence of innocence.

By making the power discretionary, and not available to the plaintiff as a matter of right as is the conversion remedy in copyright, the court is given the power to award the remedy in circumstances and in a manner which will not do injustice. The scope of the circumstances in which the remedy ought to be available might be more clearly indicated by prefacing the section giving the power by words such as, "In lieu of awarding damages in whole or in part, the Court may...." See Working Paper on Patent Law Revision, Proposed Patent Law, s. 63(4).

148. Johnston Committee Report, supra note 26, pp. 77-78. The U.K. Copyright Act 1956, supra, note 123, s. 17(3), gives such power to the court.

149. Working Paper on Patent Law Revision, Proposed Patent Law, s. 66.

150. Industrial Design Act, supra note 1, s. 18.

151. Copyright Act, supra note 145, s. 24.

152. H.R. 4530, supra, note 15, s. 922(b). The same period of limitation was recommended for Canadian patent law in Working Paper on Patent Law Revision, p. 257.

153. Industrial Design Act, supra note 1, s. 22.

154. *Regina v. Premier Cutlery Ltd.,* (1980) 55 CPR (2d)) 134 (Ont. Prov. Ct.) at 137.

155. Below, Ch. 9, text at note 4.

156. See *Working Paper on Patent Law Revision,* p. 256 for a similar recommendation in respect of patents.

157. *Working Paper on Patent Law Revision,* p. 260.

CHAPTER 8

TERM OF PROTECTION

The Industrial Design Act provides that protection for a registered industrial design runs for a term of five years effective from, and measured from the date of registration, renewable for a further term of five years, for a total terms of ten years.[1]

The first issue in recommending provisions on term for the revised statute is whether there should be any change in the total term, i.e., whether it ought to be lengthened or shortened. Analysis above led to the conclusion that, "it does not appear likely that marginal changes in the degree of protection would have much, if any, effect on the amount of industrial design activity in Canada."[2] On this basis there is no argument for either significantly lengthening or shortening the total time of protection.[3]

The revised statute ought to provide for a maximum total term of ten years measured from the date of application for registration.[4] The change from measurement from the date of registration under the present statute to the date of application under the revised statute will not make a significant difference in the length of the period of protection actually enjoyed by registered designs in the light of the relatively short period that will be taken to process most applications to registration.[5] The measurement from date of application is desirable to give applicants an added incentive to expedite their applications and to avoid rewarding those who take an extended time in prosecution of an application with, in effect, an extended term measured from date of registration.[6] Measuring the term from date of application would also make the Canadian law consistent with most other nations' laws.[7]

The next issue is whether the statute ought to continue to have a system of renewals in order to qualify for the maximum term. The main argument in favour of a renewal scheme is that it tends to clear the register of designs in which the proprietors have no significant interest protecting. This has the advantage of simplifying searches of the register (as there are fewer active registrations), and also reduces the potential for the use of inactive registrations simply as a means of harrassing competitors with threats of infringement actions.

The arguments against a renewal structure are generally based on the costs to registrants (in renewal fees and in establishing a system to deal with renewals) and the difficulties that can occur when a valuable design registration is inadvertently not renewed.

It is recommended that the revised statute retain the present renewal structure, an initial term of five years with a possible renewal for a further five years. The advantages in clearing the register of designs in which proprietors have largely lost interest outweigh the disadvantages to proprietors in costs and administrative burdens. To make the renewal scheme effective in clearing the inactive designs, the renewal fee ought to be more than trivial, and ought not to be fixed in the statute where it will be difficult to amend in the light of monetary inflation and changes in costs in maintaining the Industrial Design Office.[8]

The statute should provide for a three month period of grace after the date upon which the renewal fee for a particular registration comes due, within which if the renewal fee plus a penalty fee are paid the industrial design registration will be treated as if it had never expired.[9] Consideration should also be given to the introduction of a statutory procedure for the restoration of a design registration which has lapsed through failure to renew within the grace period.[10]

The statute should specify that regulations must be made requiring the Industrial Design Office to send notices to persons designated by the proprietors before the expiry of the initial term of protection to warn of the impending expiration of protection and the need for renewal in order to continue protection. The chief drawback to a system of Office notices of impending registration expiration, however, is that it would involve significant costs. It is recommended that such costs be passed on to the beneficiaries of the system, the design proprietors, in the form of higher registration and renewal fees. The final decision on whether a system of Office notices of renewals is adopted ought to depend in part on the views of registered design proprietors on whether they would prefer to bear the cost of monitoring the need for renewals entirely in the form of their own systems, or whether they would prefer to bear the costs in part in form of higher registration and renewal fees which paid for a system of Office notices.[11]

A final issue considered here on the question of term of protection is whether the renewal of protection ought to be made contingent on the working of the design in Canada in manner similar to that which has been recommended for the Canadian patent system.[12] No such recommendation is made here in respect of industrial designs. One of the major arguments in favour of the system proposed for patent law is that it will provide an incentive for the transfer of technology to Canadian industry. Such transfer is seen as important not only for the immediate effect of the transfer of the technology inherent in a particular patented invention, but also as contributing to the building of the general technological base of Canadian industry from which indigenous new technology may spring. Since industrial designs would not protect technology under the proposals made in this paper, they could not be used to stimulate the transfer of technology as is suggested in the patent law split term proposal.

A further related factor motivating the patent law proposal was the extent of foreign ownership of Canadian patents and a concern about the implications of this ownership for the development of the technological capacity of Canadian industry. While there is, and will likely continue to be a preponderance of foreign ownership of Canadian registered designs this factor has less significance, particularly under a design system revised as proposed in this paper. The proposed system would protect only against the copying of designs and so should not inhibit the independent development of Canadian designs. Further, the general conclusions of the analysis made above of the impact of the industrial design system, in particular the conclusion that changes in the system were not likely to have significant impact on the level of industrial design activity in Canada ought to be recalled in this context.[13]

Summary of Recommendations

1. The duration of protection in the revised statute should be an initial term of five years, measured from the date of application in Canada, or from the Paris Convention priority date if such is claimed, plus a renewal for a further five years. Actual protection would not begin until the design was registered, however.

2. The statute should provide for a three month period of grace after the expiry of the initial term of protection if the renewal fee for a registered design has not been paid within which if the renewal fee plus prescribed penalty fee are paid the registration will be treated as if it had never expired for all purposes under the Act.

3. If evidence indicates that registered industrial design proprietors want the service and are prepared to pay for it in the form of increases in registration and renewal fees, the statute should provide that regulations be enacted which require the Industrial Design Office to

send notices to persons designated by the registered proprietors before the expiry of the initial term of protection warning of the need to pay renewal fees in order to continue the registration in force.

4. Particularly if a system is adopted of renewal notices as in recommendation 3, above, the costs and complexities of any form of procedure to restore registration of designs not renewed after the expiry of the grace period exceed any benefits of such a procedure, therefore, no such procedure is recommended.

5. The renewal of industrial design protection ought not to be made contingent on the working of the design in Canada in the manner that has been recommended for a revised patent system.

Footnotes to Chapter 8

1. Industrial Design Act, RSC, 1970, C. I-8, s. 10(1).

2. Supra, Chapter 5 of Part I.

3. It may be argued that many designs are of an ephemeral nature and do not need protection for nearly as long as ten years. Further, it may be argued that the existence of protection for such designs beyond their useful market lives gives proprietors of the designs a weapon to use to harrass competitors with threats of infringement suits. Such concerns may have had the Royal Commission on Patents, Copyright, Trade marks and Industrial Design, Report on Industrial Design, ("Ilsley Commission Report"), p. 22 to suggest a total term of seven years made up of an initial term of three years with two renewals of two years each. Jackson, Roy, A New Approach to Protection for the Designs of New Products, (1956) 34 CBR 369 at 387 suggested that a term of seven years would be adequate. The Ilsley Commission Report recommendation was opposed as giving too short a term, Kent, C., The Semantics of Industrial Design Protection (1958) 31 CPR 61 at 62 and 72.

The U.K. Registered Designs Act 1949, 12, 13 & 14, Geo. 6, c. 88, s. 8 gives a total term of 15 years composed of an initial term of five years plus two five year renewals. The Board of Trade, Report of the Departmental Committee on Industrial Designs (1962) Cmnd. 1808, ("Johnston Committee Report"), pp. 58, 112-113 recommended retaining that term for design monopoly and introducing it for the proposed scheme of design copyright. The present Australian designs law has the same term and the Designs Law Review Committee, Report on the Law Relating to Industrial Designs, 1st Term of Reference (1973) Government of Australia, ("Franki Committee Report") pp. 24-26, recommended an increase to a total of sixteen years (as part of a scheme for an opposition procedure) which increase the Committee did not see as significant.

The Nordic Design Laws, [1971] Industrial Property 223, s. 24 and the Uniform Benelux Designs Law, [1974] Industrial Property 177, Art. 12 have terms identical to the U.K. and Australian law while the law of the Federal Republic of Germany also has a fifteen year maximum term, Englert, B., The Law of Industrial Designs in Germany - Actual State and Reform Proposals, (1981) 12 I.I.C. 773 at 781.

The Report of the Committee to Consider the Law on Copyright and Designs (1977) U.K., Cmnd. 6732, p. 52 ("Whitford Committee Report") and Reform of the Law Relating to Copyright, Designs and Performers' Protection (1981) Cmnd.

8302 ("U.K. Consultative Document"), p. 6 propose that designs (via copyright) receive a 25 year term of protection, perhaps largely so that the U.K. could then conform to the Berne Convention, Paris Revision (1971), Art. 7(4) (reproduced in UNESCO, Copyright Laws and Treaties of the World (1978)), which requires a minimum term of 25 years for "works of applied art in so far as they are protected as artistic works." The Whitford Committee recommendation for a 25 year term has been criticized as too long, Eder, E., Industrial Designs in the Whitford Committee's Report, [1977] C.I.P.A. 480 at 484-85.

The U.S. design patent law gives the applicant a choice of 3½, 7 and 14 year terms. 17 USC s. 173 (1976).

The proposed U.S. Design Protection Act of 1980, H.R. 4530, 96th Cong., 1st Sess., s.905, would have given a term identical to the present Canadian statute's term.

4. The period of actual protection, i.e., when the proprietor could sue for infringement, would not begin until registration. Supra, Ch. 7, text at note 44.

When a Paris Convention priority date is claimed, the statute should provide that the period of protection is measured from the priority date. See below, Ch. 14, text at note 13, for discussion and recommendations concerning Convention priority dates. See Working Paper on Patent Law Revision (1976), pp. 206-208 for a similar recommendation in respect of patents. Paris Convention, London Revision, Art. 4 bis(5) which has been interpreted by some to prevent measurement of the term for patents from the Convention priority date does not apply to industrial designs. The present U.K. Registered Designs Act 1949, supra note 3, measures the term from the Convention priority date. The Johnston Committee Report, supra note 3, p. 113, recommended altering the U.K. designs legislation so that the actual date of application was used to bring the designs law into conformity with the U.K. patent law of the time. The present U.K. Patents Act 1977, 25 & 26 Eliz. 2, c. 37, s. 25(1) however, while measuring the term from the actual application date in the U.K., has a power to alter that date of measurement by regulation, "... in view of international moves to count from the first claimed priority date." Blanco White, et al., Encyclopedia of United Kingdom and European Patent Law (1977, 1981), p. 1166. note 64.

See also, however, the limitation on term recommended in Ch. 9, text at note 7, for designs derived from works protected by copyright.

5. Supra, Ch. 5, text at note 6.

6. Working Paper on Patent Law Revision, (1976) pp. 116-117. The problem in respect of designs is not as severe as that in respect of patents, but some such problems may still occur.

7. For example, the U.K., Benelux and Uniform Nordic laws all measure from date of application.

8. Industrial Design Act, supra note 1, s. 26. Industrial Design Fees Order SOR/78-666 as amended SOR/79-62.

9. Industrial Design Act, supra note 1, s. 10(2). The statute ought to make it clear that the registration is treated as if it had not expired and therefore dealings with an infringment of the registration in the period from the expiration to the payment of the fees would be treated as if registration was in force in that period. See, e.g., U.K. Patents Act 1977, 25 & 26 Eliz. 2, c. 37, s. 25.

10. See U.K. Patents Act 1977, supra note 5, s. 28. The Franki Committee Report, supra note 3, pp. 27-28 recommended the adoption of a restoration procedure for the Australian designs law based on the U.K. 1949 patent statute.

The need for, and adviseability of a restoration procedure is open to debate. If the period of grace for payment of the renewal fee is as short as 3 months (supra text at note 5) a need for such a procedure may exist. If the period of grace were extended, to, say, six months (as in U.K. Patents Act 1977, s. 25) there would be less justification for a restoration procedure. There is reason to consider avoiding having a restoration procedure as it will necessarily lead to uncertainties, e.g., in respect of the conditions upon which restoration ought to be granted and the nature of rights acquired by persons who begin to use the design after expiration and before restoration. In addition, if a procedure of Office notices of impending expiration of a registration is adopted, there is less justification for a restoration system. (See below text at note 11).

11. The three elements in facilitating the operation of the renewal system, i.e., grace period, Office notices and restoration procedure, ought to be balanced in establishing the elements which appear in the revised statute. Each of the three elements has its disadvantages: the grace period is effectively an extension of the term, Office notices impose costs on registrants for services that they might perform more efficiently for themselves, and the restoration procedure introduces complexities and costs. See note 10, supra.

12. Working Paper on Patent Law Revision, pp. 210-212. "Working" in Canada refers to the actual manufacture of articles bearing the design in Canada as opposed to supplying the Canadian market exclusively by importation.

13. Supra, note 2.

CHAPTER 9

CANCELLATION OF REGISTRATIONS

The revised Industrial Design Act should provide express authority for the proprietor of an industrial design registration to voluntarily cancel that registration.[1]

The statute should also provide for the cancellation or amendment of an improperly registered industrial design on the application of the Attorney General or any person interested.[2] In addition the validity of a registration should be challengeable as a defence in an infringement action. The statute should provide, moreover, that when grounds for revoking a registration are established in an infringement action, the registration shall be cancelled.[3] The Federal Court should be given exclusive jurisdiction over cancellation or amendment of registrations as it is in the present legislation.[4]

The grounds upon which a registration can be cancelled ought to include all those grounds upon which the Industrial Design Office could properly have refused to register the design.[5]

A special ground for cancellation of registrations must be provided for designs which are the product of applying a work protected by copyright as an industrial design, and which are made registrable by the statutory provision recommended above which states that publication, merely of the work protected by copyright before an application for an industrial design registration for the corresponding industrial design is made, shall not be treated as publication of the industrial design so as to bar its registrtion.[6]

The statute should, therefore, provide in the section setting out the term of protection for registered designs[7] that if the copyright in the work expires while the corresponding industrial design registration subsists, the industrial design registration shall be deemed to have expired.[8] The deemed expiration of the registration will not, of course, automatically remove the actual entry of the design from the register.[9] Consequently, the statute should provide that any person may apply to the Court to cancel the registration in such circumstances.[10]

Section 29 of the Combines Investigation Act gives the Attorney General the power to seek invalidation of patents and registered trademarks when they have been used in certain offences in restraint of trade set out in that section, as well as power to seek other remedies in relation to such patents and trademarks.[11] That section should be amended to include reference to industrial designs and should authorize the Attorney General to seek cancellation of an industrial design registration in the circumstances set out in the section, as well as the other remedies mentioned there. If the proposals made above[12] are successful in meeting their objective in entirely precluding copyright protection from applying to industrial designs, then no reference to copyright will be necessary in s. 29 of the Combines Investigation Act.[13] In that case no form of intellectual or industrial property could be applied to industrial designs and be used in the manner prohibited in s. 29 without coming under the section. However, if the revised legislation as actually enacted is not such as to exclude completely the application of copyright to industrial designs, and to technology itself generally, serious consideration must be given to including reference to copyright in s. 29 of the Combines Investigation Act.[14]

The issue has arisen as to whether, and the extent to which, the use of an industrial design registration to commit an offence under the Combines Investigation Act, can be used as a defence in an infringement action.[14] It is recommended that the revised Industrial Design Act provide that when rights in a registered industrial design have been used, within two years of the commencement of an infringement action, to commit or to facilitate the commission of an offence under the Combines Investigation Act, that fact may be used as defence to the action and shall cause the registration to be invalidated.[16] The statute should, however, also provide that there shall be no revocation if an order or conviction in respect of such offence has already been made under the Combines Investigation Act, that the Attorney General shall receive notice and may intervene in any such revocation proceedings, and also that other remedies like those available in s. 29 of the Combines Investigation Act may be ordered instead of revocation of the design registration.

The burden of proof in an action to cancel a registration should be on the person applying to cancel.[17] The statute should also direct that the effective date of a Court order revoking a registration should be the date upon which the proceedings for revocation were commenced.[18]

The statute should also provide that when proceedings to revoke an industrial design registration have been commenced,[19] such proceedings may not be discontinued without disclosure of the terms of any agreement between the parties relating to their discontinuance and the approval by the Court of the terms as not being contrary to the public interest. The statute should authorize the Court to refer the terms of any agreement to the Attorney General for an opinion as to whether the terms are contrary to the public interest.[20]

Above it was recommended that the definition of an industrial design that may be protected under the revised statute be in terms of features of appearance applied to utilitarian articles.[21] In making that recommendation reference was made to the difficulties that may be encountered in particular cases in determining what are utilitarian articles.[22] When the Industrial Design Office registers an industrial design, it should not be possible to invalidate the registration on the ground that the article to which the design is applied is not in fact a utilitarian article. A specific provision should be introduced into the revised statute to this effect.[23]

Summary of Recommendations

1. The statute should expressly permit a proprietor to voluntarily cancel a registration.

2. Registrations of industrial designs should be subject to cancellation on the application of the Attorney General or any person interested.

3. The validity of an industrial design registration should be subject to challenge as a defence in an infringement action and the statute should provide that a registration shall be cancelled if such defence is successful.

4. The Federal Court should have exclusive jurisdiction over the cancellation or amendment of industrial design registrations.

5. The grounds upon which a registration may be cancelled should include all grounds upon which the Office could properly have refused to register.

6. When a copyright protected work has been applied as a corresponding industrial design, and such industrial design is made registrable by the proposed section which states that prior publication merely of the artistic work shall not be regarded as publication of the industrial design so as to bar its registration, the term of protection of the industrial design shall be deemed to have expired if and when copyright protection expires during the term of the design registration.

7. When an industrial design registration is deemed to have expired as proposed in recommendation 6, above, any person should be permitted to apply to the Court to cancel the registration.

8. Section 29 of the Combines Investigation Act should be amended to include reference to industrial designs as well as patents and trademarks.

9. If the revised legislation does not completely preclude the application of copyright to industrial designs, and to technological innovation generally, then s. 29 of the Combines Investigation Act should also be amended to refer to copyright.

10. The use of an industrial design, within two years prior to the commencement of an infringement action, to commit or to facilitate the commission of an offence under the Combines Investigation Act should be made a defence to such infringement action, and should cause the registration to be invalidated. There should be no such revocation if there has been an earlier order or conviction under the Combines Investigation Act. The Attorney General should receive notice of such revocation proceedings and have the right to intervene, and the Court should be given the power to order the same remedies found in s. 29 of the Combines Investigation Act as an alternative to revocation.

11. The burden of proof in proceedings to cancel a registration should be on the applicant to cancel, subject, in infringement proceedings, to the burden on the plaintiff to prove the originality of the design.

12. The effective date of an order revoking a registration should be required by statute to be the date of commencement of proceedings to revoke.

13. Proceedings to cancel an industrial design registration should not be discontinued without disclosure of the terms of any agreement relating to the discontinuance to the Courts for approval as not being contrary to the public interest. Reference of such agreements by the Court to the Attorney General for an opinion on whether the terms are contrary to the public interest should be expressly authorized.

14. Invalidation of an industrial design registration on the ground that the article to which the design is applied is not utilitarian ought to be precluded.

Footnotes to Chapter 9

1. See U.K. Registered Designs Act 1949, 12, 13 & 14 Geo. 6, c. 88, s. 11(1).

2. See Industrial Designs Act, RSC, 1970, c. I-8, s. 22.

3. See Working Paper on Patent Law Revision (1976), p. 261, Proposed Patent Law, s. 70(4), for a similar recommendation. Such a provision will be possible only if the Federal Court is given exclusive jurisdiction over infringement actions, supra Ch. 7, text at note 156, or if, contrary to the recommendation made immediately below, the provincial courts are given jurisdiction over cancellation of registrations.

4. Id. The U.K. Registered Designs Act 1949, supra note 1, s.11(2) provides that applications to cancel registrations should be made first to the Registrar, subject to appeal to the courts. A similar approach is proposed in U.S. H.R. 4530, 96th Cong., 1st Sess., (1979), s. 912(c). Such an approach would involve a considerable change in the nature of the duties of the administrators of the Canadian industrial design system. While this approach might appear to involve savings in legal costs by having an administrator rather than a court make the initial decision, such savings may never materialize as costs before the administrator could approach those that are incurred before the courts. Further, since decisions of the administrator might be merely to add another layer of litigation and costs to the present system. The costs inherent in equipping and staffing the Industrial Design Office to undertake such hearings ought also to be noted.

There is, however, another view of the appropriateness of assigning the initial level of decision about cancellation and amendment to the administrators. Since industrial designs generally do not represent items of as nearly as great a value as, e.g., patents (designs have a shorter term, do not protect technology, give protection only against copying), it may be particularly appropriate that cancellation proceedings take place in a cheaper and perhaps speedier forum. As there is less at stake (relative to patents), there may be few appeals of the administrator's decisions, and so the effect may not be simply to add a further layer of litigation. The relative cheapness of the cancellation procedure may be very important to interested persons who might apply to cancel registrations as in the light of the limited protection given by registrations there would be a limited incentive to see improper registrations cleared from the register. Consideration should be given to assigning the initial decision on amendments and cancellations to the administrators rather than the Court in the process of consultation with the profession the public and Industrial Design Office on these recommendations and industrial design law reform.

5. See U.K. Registered Designs Act 1949, supra note 1, s. 11(2). Supra, Ch. 5, text at notes 87-98. The Industrial Design Act, s. 22(1) has such a broad stipulation of the grounds for cancellation: "any entry made without sufficient cause."

6. Supra, Ch. 4, text after note 23.

7. Supra, Ch. 8, text at note 4.

8. The deemed expiration of the registration could then be used as a defence in an infringement action regardless of the fact that the design still appeared on the register. See below text at note 9.

See U.K. Registered Designs Act 1949, supra note 1, s. 8(3). Section 8(3) was inserted by the Copyright Act 1956 4 & 5 Eliz. 2, c.74, s. 44(2). It reflected the recommendation of Board of Trade, Report of the Copyright Committee (1952), Cmd. 8662 (the "Gregory Committee"), p. 90 that such deemed expiration of the design registrtion was necessary to avoid a de facto partial extension of the period of copyright protection through the registration of corresponding industrial designs at or near the end of the period of copyright protection.

9. This could mislead persons into thinking that protection for the industrial design still existed and therefore justifies the procedure recommended below to cancel the registration.

10. See U.K., Registered Designs Act 1949, supra note 1, s. 11(2A). That section was added by the Copyright Act 1956, 5 & 6 Eliz. 2, c. 74, s. 44(3).

See above, note 4 for a discussion of the desirability of having the initial stage of cancellation proceedings before an administrator rather than the Court.

11. Combines Investigation Act, R.S.C. 1970, c. 23, s. 29. (This statute has since been amended but this section has not been amended.)

12. Supra, Ch. 2. notes 52-163.

13. This statement is intended to be limited only to the question of the Combines Investigation Act and industrial designs, and is not a reference to the problem of copyright and the Combines Investigation Act, generally, which is beyond the scope of this paper.

14. The problems of copyright and technology are reviewed in Ch. 2, supra.

15. RBM Equipment Ltd. v. Phillips Electronics Industries Ltd., (1973) 9 CPR (2d) 46 (FCA).

16. See the same recommendation in respect of patents, Working Paper on Patent Law Revision, pp. 262-263, Proposed Patent Law, ss. 71(1) (g), (3), (4), (5).

17. This is the position under the present statute. Fox, The Canadian Law of Copyright and Industrial Design, 2d Ed., (1967), p. 677. Note, however, the recommendation, supra, Ch. 7, text after note 129, that there be no presumption of originality of an industrial design in the context of an action for infringement and that the burden of proving originality be on the plaintiff in such an action.

18. Working paper on Patent Law Revision, Proposed Patent Law, s. 71(2).

19. This would include proceedings in the form of a defence to an infringement action.

20. Working Paper on Patent Law Revision, p. 261, Proposed Patent Law, s. 70(5), (6).

21. Supra, Ch. 2, text at notes 14-19.

22. Supra, Ch. 2, text at note 20.

23. A similar provision appeared in the proposed U.S. design legislation, H.R. 4530, 96th Cong. 1st Session., s. 909(f) and 912(d). Such grounds should, of course also not constitute a defence in an infringement action.

Under proposals made supra, Ch. 2, text after note 74, copyright protection would be lost to the extent that a work had been registered as a corresponding industrial design. If a registration were cancelled on the ground that the design was not applied to a utilitarian article, in fairness to the proprietor of the design consideration would have to be given to providing in the legislation that copyright protection was restored in such circumstances, or else the proprietor would be left with no protection for the work applied as such a design. It would generate less confusion about the state of protection if the industrial design registration is maintained in such circumstances, and copyright protection lost as recommended in the proposals referred to above.

A parallel recommendation was made, supra Ch. 2 at notes 98-100, for the converse situation, i.e., in which the Industrial Design Office refuses to register a design because in its view the design is not applied to a utilitarian article. There it was recommended that the Office decision on that point be treated as final so as to avoid any argument that copyright protection would be lost when the design applied to those articles was actually marketed.

CHAPTER 10

OFFENCES

1. False Representations to the Industrial Design Office: Criminal Offence

The revised statute should provide that knowingly making or causing to be knowingly made any false representation in relation to the purposes of the statute should be a criminal offence subject to fine and/or imprisonment.[1] Such a provision would apply, for example, to those who knowingly provide false information to the office for the purposes of securing a design registration.

2. False Representations to the Industrial Design Office: Cancellation of Registrations and Civil Liability for Damages

The revised statute should also provide that knowingly making any material false representation in respect of the purposes of the statute shall result in any registration, or other rights or privileges obtained under the statute, being void.[2] It should be provided further that any interested person, including the Attorney General, may apply to the Federal Court to cancel such registration.

In addition the statute should provide that any person who brings an infringement action knowing that the registration of the design was obtained through a material false representation should be liable to the defendant in such action for exemplary damages in such amount as the Court deems fit.[3]

3. Falsification of Industrial Design Office Records By Office Employees and Others

The statute should also provide that knowing falsification of any record or document in relation to the purposes of the statute is an offence subject to punishment by fine and/or imprisonment.[4]

4. Unauthorized Claim of Industrial Design Rights

The revised statute should prohibit any person without the consent of the registered proprietor from representing by marking articles, advertising or otherwise that a registered industrial design has been applied to articles with the consent of the registered proprietor.[5]

The statute should also prohibit anyone from falsely representing any article to be one to which has been applied either a registered industrial design, or an industrial design for which registration has been applied.[6] A false representation in this context ought to be defined to include cases when such industrial design has never been registered, and when a design has been registered but such registration has expired or has been cancelled for any reason at the time of the representation. Similarly a false representation should include cases when no such industrial design application has ever been made, and when an application was made but the application has been rejected, withdrawn or abandoned at the time of the representation.[7] A representation should be defined to include representations made by marking articles, advertising or other means. The statute should expressly state that selling, exposing for sale or otherwise disposing of articles or packaging with any word, symbol or abbreviation which has been given statutory recognition as an adequate mode of giving notice of a design registration or of an application for a design registration should be deemed to be such a representation.[8] Further, the statute should provide that a representation shall include any exposure for sale, sale or other disposal for commercial purposes of articles or packaging marked with any other word, symbol or abbreviation expressing or implying that a registered design, or a design for which resignation has been applied to the articles, has been applied to the articles.

Difficulties can occur when articles or packaging was marked at a time when a design registration or application was current, and such articles are still in commercial distribution channels when the registration or application ceases to exist. It is recommended that provisions like those in the U.K. Patents Act 1977 be adapted to provide defences to persons who have marked articles and packaging in such circumstances and have acted within a reasonable time with due diligence to prevent the false representation from being make.[9]

It should also be provided that a defendant who merely sells, exposes for sale, advertises, or otherwise disposes of articles or packages to which such false representations have been applied by marking or otherwise by others, and who did not import or cause to be imported such articles or packages, shall not be liable under the section unless the defendant knew that the representation was false.[10]

For all of the above offences of false representations the statute should provide an appropriate criminal penalty.[11] Further the statute should authorize any person interested to seek relief in the form of damages, and injunctions and it should also give the Court a discretionary power to make orders concerning the disposition of offending articles, packages, labels and advertising material.[12]

5. Remedy for Groundless Threats of Infringement Proceedings

The revised statute should include a section giving a remedy to persons aggrieved by what prove to be groundless threats of infringement actions. Such a section has been recommended for the revised patent law, based on a provision in the U.K. patent statute.[13] Since that recommendation was made, new U.K. patent legislation has been enacted which includes a revised version of the section upon which the Canadian patent law revision recommendations were based.[14]

It is recommended that the new U.K. patent legislation be used as a model for a similar provision in the revised Canadian industrial design legislation with an important exception. Reflecting the recommendations of the Banks committee the revised U.K. patent law provision excludes liability for threats to bring infringement proceedings for infringement alleged to consist of making or importing products covered by a patent. The Canadian Working Paper on Patent Law Revision notes that such a provision reflects a concern for patentees who may feel intimidated against giving warnings to manufacturers and importers that their rights may be infringed. That Paper, however, recommends that the revised Canadian law should require, "patentees (to) bear the burden of any loss arising from circumstances where they successfully intimidate people on the basis of claims to legal rights which, in fact, do not exist,"[15] in disagreeing with Banks.

It is recommended that the provision for liability for groundless threats of infringement proceedings not exclude liability for threats in respect of alleged infringement by making or importing articles bearing a registered industrial design.[16]

6. Summary of Recommendations

1. Knowingly making false representations in relation to the purposes of the statute should be an offence subject to penalty by fine and/or imprisonment.

2. Knowingly making any material false representation in relation to the purposes of the statute should result in any registration or other rights obtained under the statute being void, and any interested person should be permitted to apply to cancel any relevant registration.

3. Any person who brings an infringement action knowing that the registration was obtained through a material false representation should be a liable to the defendant for such exemplary damages as the Court sees fit.

4. Knowing falsification of any record or document in relation to the purposes of the statute should be an offence subject to penalty by fine and/or imprisonment.

5. It should be an offence subject to fine, and any person interested should be entitled to seek damages, injunctions or orders for the disposition of offending articles, packages, labels and advertising material when:

   (a) any person represents, without the consent of the proprietor, that an article bears a registered industrial design, or

   (b) falsely represents an article to be one to which a registered design, or a design for which registration has been applied, has been applied.

6. A defence should be provided for persons who have made a false representation under 5b, above, but have acted within a reasonable time and with due diligence to prevent the false representation from being made.

7. A person who merely sells, exposes for sale advertises or otherwise disposes of articles to which false representations in 5b) above, have been applied should not be liable unless he knows such representations were false.

8. There should be a statutory remedy for groundless threats of infringement.

7. *Footnotes to Chapter 10*

1. The present *Industrial Design Act* RSC 1970, c. I-8, has no such provision. Reference should be made to the *Working Paper on Patent Law Revision*, s. 102(1), which reproduces s. 79 of the present *Patent Act*, R.S.C. 1970, c. P-4, providing for an indictable offence and a fine not exceeding $5,000 (an increase over s. 79) or six months imprisonment.

Designs Law Review Committee, *Report on the Law Relating to Industrial Designs*, 1st Term of Reference (1973, Government of Australia) ("Francki Committee Report") p. 43 recommends the deletion of such a provision from the Australian designs statute on the ground that it duplicates another criminal statute. Whether or not the making of false representations to gain any advantage under the *Industrial Design Act* might be an offence under the *Criminal Code* in Canada, it is desirable to have a specific offence in the *Industrial Design Act* for the educative effect, if for no other purpose.

2. See the proposed U.S. design legislation, H.R. 4530, 96th Cong., 1st Sess., s. 926. Other rights or privileges could refer, e.g. to the right to sue for damages because others had falsely represented that their goods bore the registered design when they did not. See below, text at notes 5 and 12.

3. See H.R. 4530, *supra* note 2, s. 924. That section would limit the maximum amount of such damages to $1000. The *Working Paper on Patent Law Revision*, *Proposed Patent Law* s. 37 proposed a section which would give a much broader potential liability in that it would not be limited to cases in which an infringement action was brought, but would make the applicant or patentee liable for any loss suffered as a result of a false statement in a specification made knowingly or recklessly. Since industrial designs are not to protect technology itself, there would be much less scope for losses (than in patents) arising out of falsity in the application or registration, other than when an infringement action is brought, or threatened, see below text at note 14.

4. See s. 102(1) of the *Proposed Patent Law* and p. 79 of the present *Patent act*, supra note 1. See also U.K. *Registered Designs Act 1949*, 12, 13, 14. Geo. 6, c. 88, s. 34 and U.K. *Patents Act* 1977, c.37, s. 109.

5. See *Working Paper on Patent Law Revision*, *Proposed Patent Law*, s. 100(1). This is broader than a case of infringement, *i.e.*, the actual application of a registered

design without the consent of the proprietor. It also applies to a case in which a registered design has not been applied to articles, but a person falsely represents that the articles do bear a registered design.

6. The recommendations reflect modifications of s. 17 of the Industrial Design Act, drawn in considerable measure from ss. 110 and 111 of the U.K. Patents Act 1977, supra note 4. See also U.K. Registered Designs Act 1949, supra note 4, s. 35.

Sections 110 and 111 of the Patents Act 1977 both limit liability to representations made in respect of articles disposed of by the representor for value. This limitation seems unjustified. Argually any false representation, at least if made for commercial purposes, ought to be prohibited.

7. It should not, of course, include the case in which an application has been successfully pursued to registration.

8. Supra, Ch. 7, text after note 64.

9. Patents Act 1977, supra note 4, ss. 110(3), (4), 111 (3) (4). Thus the statute could provide that liability would not arise after the expiring or cancellation of a registration, or after the rejection withdrawal or abandonment of an application, until the passage of a time reasonably sufficient to enable the defendant to take steps to ensure that the representation is not made or does not continue to be made. Also, it could be provided that due diligence to prevent the commission of an offence shall be a defence.

10. See Industrial Design Act, supra note 1, s. 17 (1)(c). It should not be necessary to show that one who marks or causes to be marked, or otherwise applies a false representation to articles, and persons who import marked articles actually know of the falsity of the representation. Such persons should have a duty to investigate to ensure that any such representation is true. A defendant, however, who is a retailer or other person who merely sells or otherwise deals with articles that he acquired falsely marked, ought not to be liable unless he had actual knowledge of the falsity of the representation.

11. See Working Paper on Patent Law Revision, Proposed Patent Law, s. 102(3).

12. Id., s. 100(3). See Ch. 7, supra, text at note 148. The Federal Court should have exclusive jurisdiction over the

civil remedy provisions of this section. Supra, Ch. 7, text at notes 153-156. The proposed limitation period of three years ought also to apply. Supra, Ch. 7, text at notes 150-152.

13. Working Paper on Patent Law Revision, pp. 295-296.

14. Patent Act 1977, supra note 4, s. 70.

15. Working Paper on Patent Law Revision, p. 296

16. In relation to patent law, the concern about not having such an exclusion reflects the sometimes difficult position of patentees who assert patent rights in good faith and then later discover that the patent is invalid, for example, on some difficult issue of lack of inventive step. In the case of the industrial design system as recommended in this paper, there will be less scope for difficulty in predicting whether a court will uphold a particular registration as being valid. For example, the proposed industrial design system would have no requirement of either inventive step or novelty, grounds upon which patents are often invalidated.

If the recommendation in the text proves unacceptable, consideration should be given at least to providing that the maker of a threat of infringement proceedings in respect of alleged infringement by making or importing articles ought to be liable if, when the threats were made, the maker of them supposed or ought to have supposed that the threatened infringement action was not likely to succeed if brought. This could be seen as an extension of the liability proposed in the recommendation supra, text at note 3.

Consideration should also be given to the recommendations of the Franki Committee Report, supra note 1, at pp. 39-40, in drafting the section on threats. In particular consideration should be given to expanding the section to include not only threats of infringement proceedings but also of "some other like processing" which would include threats, based on an application for registration, of proceedings to be taken when registration is secured. In addition, the exception for merely giving notice of the existence of a design registration could require the giving of the registration number.

CHAPTER 11

COMPULSORY LICENCES

The present Industrial Design Act unlike the Patent Act[1] has no provisions for compulsory licensing. Since the revised industrial design system recommended in this paper would not protect technology itself and would give a shorter period of protection than for patents, the need for compulsory licensing provisions would not be as great for industrial designs as it is for patents. It is recommended, however, that a compulsory licensing provision be introduced into the revised industrial design statute.

Compulsory licences should be available when it can be demonstrated that a registered design is not being applied on a commercial scale in Canada, to the extent that is reasonable in the circumstances.[2] In addition, compulsory licences should be available when it is demonstrated that the demand in Canada for articles to which a registered design has been applied is not being met on reasonable terms[3] or that by reason of the refusal to grant licences on reasonable terms the development of commercial or industrial activities in Canada is unfairly prejudiced.[4] Further it should be provided that compulsory licences should be available when it can be demonstrated that the market for the export of articles to which the design has been applied in Canada is not being supplied.[5].

Applications for compulsory licences should be made to an administrative authority, with the decisions of that authority, subject to appeal to the Federal Court.[6] The authority should be authorized to grant a compulsory licence when it is of the opinion that the grant of a licence would be likely to correct the condition which consituted the ground for applying for the compulsory licence.[7] Further, the authority should have the power to impose such conditions under the licence as it sees fit.[8] The royalty payable should be stipulated by statute to be that which would be paid by a willing licensor to a willing licensee as established by the authority.[9]

It has been observed elsewhere that the compulsory licensing provisions in patent statutes are not widely used which may indicate that they are not particularly effective in remedying the abuses at which they are aimed.[10] While it is not anticipated that compulsory licensing provisions in the industrial design legislation will be appreciably more effective, nevertheless such provisions ought to be introduced for use in those cases, even if few, when they can be used. Perhaps even more importantly, the existence of compulsory licensing provisions can be seen as an expression by Parliament of the need to balance interests - those of the public as well as those of industrial design proprietors - in the development of industrial design law. Such provisions may serve as a reminder of the need to consider such balancing for all those involved in interpreting and applying the law, including the Courts.

Summary of Recommendations

1. Compulsory licences would be available on a demonstration that:
    - (a) a registered design is not being applied on a commercial scale in Canada to the extent that is reasonable in the circumstances, or
    - (b) the demand in Canada for articles bearing the design is not being met on reasonable terms, or
    - (c) by reason of the refusal to grant licences on reasonable terms the development of commercial or industrial activities in Canada is unfairly prejudiced, or
    - (d) the market for the export or articles to which the design has been applied in Canada is not being supplied.
2. Applications for compulsory licences should be made to an administrative authority authorized to grant licences if the granting of licences in its opinion would be likely to correct the condition which constituted the ground for application.
3. The authority should have power to impose such conditions under a licence as it sees fit.
4. The royalty payable should be that which would be paid by a willing licensee to a willing licensor as determined by the authority.

Footnotes to Chapter 11

1. Patent Act, R.S.C., 1970, c. P-4, ss. 67-73.

2. The Paris Convention, London Revision 1934, to which Canada has adhered (reproduced in WIPO, Manual of Industrial Property Conventions (1978), Article 5B prohibits legislation providing for the forfeiture of industrial designs for failure to work. Consequently, only compulsory licences can be provided for, unlike the Patent Act, s. 68(d) which provides for revocation of the patent. A provision for compulsory licensing appears in the U.K. designs legislation, Registered Designs Act 1949 12, 13, & 14 Geo 6, c. 88, s. 10(1). The Report of the Departmental Committee on Industrial Designs (1962) Cmnd. 1808 ("Johnston Committee Report") p. 60, recommended that it be retained. The Designs Law Review Committee, Report on the Law Relating to Designs, 1st Term of Reference, (1973) Government Printer of Australia, ("Franki Committee Report") pp. 37-39, recommended that the somewhat similar existing provision in the Australian designs law be retained in an extended form. The Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs, Report on Industrial Designs, Ottawa, 1958, ("Ilsely Commission Report") p. 28 recommended that the U.K. act provision be adopted for Canadian law.

The recommendations of the Working Paper on Patent Law Revision, Proposed Patent Law, s. 53, or the provision of the U.K. Patents Act 1977, c. 37, s. 48(3) may provide helpful models for drafting the proposed section.

The goal in providing for such compulsory licences is not to encourage the establishment of relatively inefficient and internationally uncompetitive industries in Canada. Rather it is to ensure that the existence of registered industrial rights in Canada will not pose a barrier to the establishment of industries in Canada which are competitive, which might occur in some instances particularly when the rights are owned by foreign proprietors. See Ilsley Commission Report, p. 28.

3. Patent Act, supra note 1, s. 67(2)(c). Working Paper on Patent Law Provision, Proposed Patent Law, s. 57(2)(a).

4. Patent Act, supra note 1, s. 67(d). Working Paper on Patent Law Revision, Proposed Patent Law, s. 57(2)(b). Consideration should also be given to adopting some form of Patent Act, s. 67(e) and Proposed Patent Law, s. 57(2)(c) in the revised industrial design statute.

5. U.K., Patents Act 1977, supra note 2, s. 48(d). Such a provision can only prevent a Canadian industrial design registration from being used to prevent such export and can have no effect on any foreign industrial design rights which might be used to block the import of articles from Canada into a foreign market.

6. The authority ought to be the same one that deals with applications for compulsory licences of patents.

7. Working Paper on Patent Law Revision, Proposed Patent Law, s. 57(4).

8. Working Paper on Patent Law Revision, Proposed Patent Law, s. 58(1). Such power should include the power to grant an exclusive licence. See U.K. Patents Act 1977, s. 49(3); Patent Act, supra note 1, s. 68(d). The authority should also have the express power to cancel or amend any existing licence of an applicant for a compulsory license.

9. Working Paper on Patent Law Revision, Proposed Patent Law, s. 58(1).

10. Working Paper on Patent Law Revision, pp. 103-105. Blanco White et al; Encyclopedia of United Kingdom and European Patent Law (1977, 1981), s. 8-501.

The Economic Council of Canada, Report on Intellectual and Industrial Property (1971), p. 125 recommended that no compulsory licensing provisions be introduced into the industrial design law on the basis that they would be unnecessary in the light of the short term of protection the Council had recommended for designs, five years. The term recommended in this paper is ten years, supra Ch. 8, text at note 4.

CHAPTER 12

RELATIONSHIP BETWEEN INDUSTRIAL DESIGNS AND TRADEMARKS

1. Introduction

Industrial designs have been defined in this paper as features of appearance applied to utilitarian articles for the purpose of making such articles attractive, special or distinctive in appearance.[1] Trademarks are devices, which can include features of appearance of products or packaging, which distinguish products put on the market by one trader from products put on the market by other traders.[2]

Since both industrial designs and trademarks include features of appearance applied to utilitarian articles, there is a potential overlap between industrial design and trademark protection. One important area of overlap is in respect of "distinguishing guises" which can be registered under the Trade Mark Act and which are defined as follows:

> "(i) a shaping of wares or their containers, or
>
> (ii) a mode of wrapping or packaging wares
>
> the appearance of which is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others;"[3]

Distinguishing guises are registrable under the Trade Marks Act only if they have been so used in Canada that they have become distinctive, *i.e.*, such that they actually distinguish for consumers products originating from one trader from products originating from all other traders.[4] The Ilsley Royal Commission noted that the proprietor of a registered industrial design could use the period of exclusive use of the design protected by an industrial design registration to establish the distinctiveness of the design as a trademark and then register the design as a distinguishing guise trademark.[5]

It should be noted that the overlap of industrial designs and trademarks is potentially broader than merely in respect of distinguishing guises. In theory at least any word, symbol or mark in a particular visual form applied to the surface of any utilitarian article, including packaging, might be claimed to be an industrial design as defined in the proposed industrial design legislation.[6] There are certain types of trademarks which are prima facie excluded from registration under the Trade Marks Act, for example, because they are "clearly descriptive or deceptively misdescriptive ... of the character or quality of the wares or services in association with which (they are) used".[7] Such trademarks can be registered, however, if they have been used in Canada so as to have become distinctive as a trademark.[8] Arguably a trader might claim to register a descriptive word in a particular form applied to a packaged article as an industrial design. If successful in such registration, the proprietor might endeavour to use the period of exclusive use of the registered industrial design to build up the distinctiveness of the descriptive word itself as a trademark and then register the word as a trademark.[9]

The industrial design system proposed in this paper, since it would provide protection against copying only and not a monopoly of the registered design, would be somewhat less effective than the present law as a barrier behind which to build up the trademark distinctiveness of a registered design. The proposed industrial design system could still be used, nevertheless, to a significant extent in this way.[10]

2. Arguments for Permitting Registered Industrial Designs to be Protected as Registered Trademarks

It can be argued that the public will be harmed unless registered industrial designs are permitted to be protected as registered trademarks. It may be suggested that some industrial designs will in fact become distinctive in the trademark sense (i.e., they actually identify for the public products put on the market by all other traders) during the period in which they are registered as industrial designs. Therefore, it is argued, it would deceive the public to permit other traders (i.e., other than the trader for whom the design is distinctive) to use the design after the expiry of the industrial design registration. The most effective method of preventing such use is to permit the design to be registered as a trademark.

A further argument in favour of permitting industrial designs to be registered as trademarks is that some designs are created with the purpose that they become distinctive in the trademark sense. If such a design is successful, the appearance of the product becomes a trademark with a potent combination for marketing purposes of both aesthetic appeal and identification of product origin. It may be suggested that it is only reasonable to recognize and to give protection to these types of investments by businesses.

3. Reasons For Not Permitting Registered Industrial Designs to be Protected as Registered Trademarks

The Ilsely Royal Commission recommended that amendments be made to the Trade Marks Act which would have limited the scope for the use of an industrial design registration as an aid to establishing the trademark distinctiveness of a distinguishing guise so that it could be registered under the Trade Marks Act.[11] The Commission noted that permitting such designs to be registered as trademarks amounted to an indefinite extension of the period of protection for the industrial design.[12] Such extensions of protection for an industrial design can be misleading and unfair to the public. When an industrial design registration expires, members of the public are likely to assume that they are free to use the design. If such a design is then protected under the trademark statute, however, such users of the design may discover themselves subject to a trademark infringement action.[13].

A further reason for not permitting industrial designs to be protected as trademarks is that such protection would defeat the policies underlying the limitation on the term of protection for industrial designs. Industrial design protection has been created to stimulate a socially desirable level of design innovation, which it is believed would not occur without such protection because of the ease with which competitors could copy designs. The period of protection is limited, however, in the belief that offering protection beyond that necessary to stimulate such a level of design innovation becomes counterproductive of social welfare because of the economic inefficiencies inherent in the registered design monopoly.[14] Analysis above further suggests that increased industrial design protection is not likely to influence significantly the amount of industrial design innovation in Canada, and also that it is not clear that further industrial design activity would increase net social welfare in Canada.[15]

Since permitting industrial designs to be protected as trademarks can be seen as extending the period of protection for industrial designs, such an extension can be seen at least as not increasing net social welfare, and perhaps as contributing to decreased net social welfare through the extended monopoly effect on industrial designs protected as trademarks.

A further difficulty with permitting industrial designs to be registered as trademarks is that such protection may extend the indirect protection of operational features of designs.

While the trademark legislation excludes operational features from protection, experience has indicated that such provisions are difficult to apply.[16] The problem of indirect protection of operational features is greater in one respect in the case of trademark protection than in the case of industrial design protection since the period for trademark protection is indefinite while that for industrial designs is limited.

The above analysis indicates that net social welfare would not be increased, and may well be decreased, by drafting the trademarks law so that it encourages the registration as trademarks of registered industrial designs. There is also no argument for such protection based on claims for fairness of treatment for proprietors of such designs, in respect of the cases in which the proprietors of designs deliberately invest in trying to make their industrial designs distinctive as trademarks. When the law is clear that no protection as a registered trademark will be available, any such investment can only be seen as at the proprietor's own risk and not as yielding any claim to protection.

There will be an adverse effect of not permitting the registration as trademarks of those registered industrial designs which become distinctive as trademarks without any deliberate effort to make them so on the part of the proprietors. This effect will arise from the confusion of the public and the unfair diversion of trade from the proprietors of such designs that will occur when such designs are used after the expiry of the industrial design registration by traders other than the design proprietor.[17] However, it would not be practical to offer trademark registration to such designs without at the same time encouraging other traders deliberately to attempt to make their registered designs distinctive as trademarks so that they could secure trademark registrations for them. In general, the adverse effects of permitting registered industrial designs to be registered as trademarks outlined above offset the advantages in permitting those designs which do become distinctive to be registered.

4. Recommendations

The recommendation of the Ilsley Royal Commission should be adopted which would provide that no registered industrial design should be registrable as a trademark by any person for a period of three years after the expiring of the industrial design registration.[18]

The purpose of such a provision would be to permit other traders to adopt the design upon the expiry of the industrial design registration during the specified three year period. Such adoption by other traders would tend to cause the design to lose its distinctiveness as a trademark and thus make the design unregistrable under the Trade Marks Act. Such a provision would provide an adequate response to the problems identified above with permitting registered industrial designs to be registered as trademarks. If a particular registered industrial design indirectly protected operational features (despite the proposed statutory exclusions of such features), other traders would have the opportunity to adopt the design during the three year period. Failure of others to adopt the design would be an indication that the design did not extend to operational features or that if it did, such features were not of sufficient importance to be attractive to other traders. In addition the incentive for proprietors to promote particular industrial designs so that they become distinctive as trademarks would be greatly reduced since a proprietor of such a design would risk losing the right to register the design during the three year period.

The proposal for a three year delay before a registered industrial design can be registered as a trademark is to be preferred over a complete prohibition of registering industrial designs as trademarks. The proposal is an adequate means of discouraging the use of industrial design registrations as a mode of making otherwise unregistrable trademarks, registrable under the trademarks legislation. At the same time by preserving the possibility of registration as a trademark after the three year period, it permits the use of the trademarks system to prevent the use of designs which are then distinctive as trademarks in a manner which would confuse or deceive the public.

It should be recalled that designs which have become distinctive as trademarks can be protected not only by registration under the Trade Marks Act but also through the action of passing off.[19] Consequently, while the proposal made above would bar registration of a registered industrial design until three years after the expiry of the design restriction, the proprietor of a registered industrial design that had in fact become distinctive as a trademark could preserve such distinctiveness by using the passing off action to prevent other traders from adopting the design during the three year period. It is recommended, therefore, that the revised industrial design statute provide that during the three year period after the expiry of an industrial design registration, no action may be brought, nor any remedy obtained in respect of any use of the industrial design or one so similar as likely to be mistaken therefore in any action of passing off, under the Trade Marks Act, s. 7, or any similar action.

A broader issue of the overlap of industrial design and trademark protection is the general question of the use of words, letters, numerals or other symbols which may convey information as parts of industrial designs. The scope for such things to constitute industrial designs or parts of designs is limited by the definition of industrial design. As proposed above, the definition of industrial requires that a design be solely the appearance of a utilitarian article. This would mean that only a particular fixed appearance of a word, letter, number or symbol could constitute the whole or part of an industrial design, and only the copying of such fixed appearance could constitute infringement of such a registered design.[20] Any information conveyed by the word, letter, number or symbol ought to be disregarded in establishing what the industrial design is and whether it has been infringed.[21]

Under the present U.K. designs legislation a Rule has been made which requires the removal of any words, letters or numerals in a design filed for registration if such material is "not of the essence of the design."[22] If such material is of the essence of the design the Registrar may require a disclaimer of any right of exclusive use for such material as a condition of registration of the design.

The above U.K. Rule has been criticized on the basis that there is difficulty in what "the essence of the design" should mean.[23] The Johnston Committee Report was critical of the then prevailing interpretation of the Rule which resulted, for example, in the exclusion of numerals or words as not being of the essence of a design when, "the numerals consisted of independence dates or the words were such as to have a special significance in the markets in which it was intended to exploit the design."[24] The Committee saw such exclusions as unreasonable.[25]

The Johnston Committee proposed that the U.K. Rule be modified so that it simply gave the Registrar a discretionary power to require a disclaimer of any right to exclusive use of any words, letters or numerals which appeared in a design submitted for registration. A question arises in respect of the Committee's recommendation of whether such disclaimers ought not to be mandatory in every case.[26] Since it was concluded above that it was inappropriate that industrial design registrations be used to protect such material, it is recommended that disclaimers be made mandatory but the form of such disclaimer be in the discretion of the Industrial Design Office.

In summary, it is recommended that the statute require that a disclaimer in a form required by the Industrial Design Office be inserted in a design registration when the design contains any words (including names), letters, or numerals.[27] Such a requirement should also make it clear that such material is to be excluded from the statement of originality required to be included in the registration.[28]

A final aspect of the relation between industrial designs and trademarks considered here is whether registration ought to be permitted for industrial designs which contain trademarks as part of the design. It has been suggested that registration of material as a trademark is not inconsistent with its registration as an industrial design under the present law.[29]

The revised legislation or regulations ought to specify that a registered trademark cannot appear as part of the representation of a registered industrial design without the consent of the registered proprietor of the trademark.[30] In addition, to prevent attempts to use industrial design protection to bolster in some fashion what may be weak registered trademarks (i.e., vulnerable to expungement of their registrations as trademarks) through registration of such trademarks as in industrial designs, registered trademarks included in industrial designs submitted for registration should be subject to the disclaimer requirement proposed above.[31]

5. Summary of Recommendations

1. No registered industrial design, or a design so similar that it is likely to be confused therewith, should be registrable as a trademark under the Trade Marks Act while the industrial design registration subsists and for a period of three years after the expiry of the industrial design registration.

2. It should not be possible to bring any legal action nor to obtain any remedy in respect of any use of a registered industrial design, or one so similar as likely to be confused therewith, in respect of any use of such designs, in any action of passing off, under the Trade Marks Act s. 7, or any similar action, while the industrial design registration subsists or for a period of three years after the expiry of the industrial design registration.

3. A design which contains words, including names, numerals or letters shall not be registered unless there is inserted a disclaimer in a form approved by the Industrial Design Office that the registration does not give the right to prevent copying of such words, numerals or letters.

4. A registered trademark should not appear as part of a registered industrial design without the consent of the registered proprietor of the trademark.

5. When a registered trademark appears as part of a registered industrial design, it should be subject to the disclaimer requirement proposed in recommendation 3, above.

6. Footnotes to Chapter 12

1. Supra, Ch. 1 text after notes 40 and 53; Ch. 2 text at note 19.

2. Supra, Ch. 1, text preceeding note 1.

3. Trade Marks Act, R.S.C. 1970, c. T-10, s. 2. The overlap between industrial and distinguishing guises in respect of designs or guises which are the "shape of wares" is clear. The area of overlap in respect of the shape of containers for wares, or of modes of wrapping or packaging wares, may be a little less clear. It would appear, however, that a design applied to packaging is *prima facie* an industrial design as it is a design applied to a utilitarian article, *i.e.*, the packaging. In the case of a design applied to packaging which is made (or at least has the design applied to it) by the maker and vendor of the products which are sold in the packaging, the question may arise as to whether the packaging can be seen as an article in itself for the purposes of the industrial design law. If the packaging is never sold separately from the products, it might be argued that a design applied merely to the packaging could not qualify as an industrial design under the proposals made above (Ch. 5, text at note 57) which prohibit registration of industrial designs for articles or parts of articles which are not sold separately. However, a response to such an argument may be to view the packaged product as a whole as an article and to claim the design as one applied to that entire article. See Aspro-Nicholas Limited's Design Application, (1974) RPC 645 (U.K., R.D.A.T.)

4. Trade Marks Act, supra note 3, ss. 13(1)(a), 2 "distinctive".

5. Royal Commission on Patents, Copyright, Trade Marks and Industrial Designs, Report on Industrial Designs (Ottawa, 1958), p. 33. ("Ilsley Commission Report")

6. The claim could be made equally in respect of the current Industrial Design Act. See below note 22.

7. Trade Marks Act, supra note 3, s. 12(1)(b). See also the prohibition in s. 12(1)(a) concerning the names of individuals.

8. Trade Marks Act, supra note 3, s. 12(2). See text supra at note 4 for definition of "distinctive".

9. The extent of opportunities for securing such industrial design registrations, and the utility of such registrations as a shield behind which to build up trademark distinctiveness is problematic. To qualify as an industrial design, a design must have a particular fixed appearance and therefore a word _per se_ could not qualify as an industrial design. A word in a particular visual form, however, applied to a utilitarian object _prima facie_ could be an industrial design.

Even if a word or words in a particular form were registered as part of an industrial design, the scope of protection available for industrial designs would not protect the word or words as such. Industrial design protection would extend only to the particular appearance of the word or words as they appeared in the registered design. This would not give protection against the use by others of the word or words in other forms that were not sufficiently similar to the form in the registered design to be visually confined therewith.

Notwithstanding these limitations on the usefulness of industrial design protection as a mode for assisting in the establishment of distinctiveness of trademarks other than distinguishing guises, this type of use of industrial design protection does represent a sufficiently important matter that it ought to be adverted to in drafting the revised industrial design legislation and regulations.

10. Under the proposed industrial design system the proprietor of a registered design could not prevent the use of the same or similar designs that had not been copied from the registered design. The use of such designs by others would defeat the acquisition of trademark distinctiveness in the proprietor's registered design. As a practical matter, however, competitors who wished to use a design similar to a registered design would often have copied the registered design, or at least appear to have done so. An industrial design registration under the proposed system would be a bar, or at least a significant inhibitor, of the use of such designs by competitors.

11. _Supra_, note 5.

12. Under the existing and proposed industrial design law the maximum period of protection for a registered design is ten years. Once registration for a trademark is obtained, protection continues indefinitely, subject to its being invalidated for various reasons set out in the legislation.

13. A similar problem was noted, supra Ch. 2 text at note 53, in dealing with the overlap of industrial design and copyright protection. There it was noted that a further aspect of the problem of dual protection is that a defendant may find itself liable to two plaintiffs in respect of the same use of the design when ownership of the two types of protection is in different hands, e.g., when there has been an assignment of one type of protection. There is less scope for that type of problem in the case of duality of protection in the form of industrial design and trademark protection since the use of the industrial design and the trademark by different persons might tend to endanger the distinctiveness, and therefore the validity, of the trademark.

Since there is a register of trademarks which would-be users of an expired industrial design can check before using it, the unfairness to the public in extending protection of designs through trademark registration may be a less accute problem than the continuation of industrial design protection through copyright protection, for which there is no register. Many users of an expired industrial design might not think of checking the trademarks register, however, and they ought not to be required to do so. The implications of the protection of trademarks without registration through actions of "passing off" are dealt with below text at note 19.

14. It does not affect the analysis if the type of protection in the industrial design system is changed from the monopoly-type protection of the present system to the copyright-type protection recommended in this paper. See Economic Council of Canada, Report on Intellectual and Industrial Property (1971), p. 36. ("Economic Council Report").

15. Supra, Ch. 5, Part I, Industrial designs which could be registered as trademarks are examples of "horizontal" product innovations as defined supra Ch. 5, Part I. While it was concluded above that horizontal product differentiation cannot be deemed per se bad from the perspective of increases in social welfare, it was also concluded on the basis of the available evidence that a substantial amount of the horizontal product differentiation associated with industrial designs does not increase net social welfare and may reduce net social welfare, supra Ch. 5, text after note 27. This conclusion would also apply to horizontal product differentiation encouraged by distinguishing guise protection under the trademarks legislation.

16. Operational features ought not to receive industrial or intellectual property protection unless they receive patent protection, supra Ch. 1, text at notes 20-30. Notwithstanding the express exclusion of operational features from the

subject matter of industrial design protection, there is likely to be some such protection in practice because of the difficulty of applying the tests of exclusion of operational features, supra Ch. 1, text at notes 26 and 27.

Trade Marks Act, supra note 3, s. 13. The difficulties of administration reflect the fact that an application for registration may affect any area of technology and the staff of the Trade Marks Office cannot be expected to have technological expertise over such a range, in addition to the general problems inherent in such tests, supra.

17. If the Trade Marks Act were amended so that it was clear that registered industrial designs could not be registered as trademarks, traders who recognized that a registered design of theirs was in danger of becoming distinctive as a trademark could take steps to forestall such a development, e.g., by advertising and promotion which stressed a registered trademark used in association with products bearing such a design.

18. Ilsely Commission Report, supra note 5, p. 33. The legislation should provide that the registered industrial design or any design sufficiently similar as likely to be confused with it cannot be registered. The Ilsely Commission Report suggested that a registered design "or any features thereof" not be registrable as a trademark. Such language is too broad unless it is clear that what is prohibited registration as a trademark is a design that would be recognized as the registered industrial design by purchasers of products bearing the design.

The Ilsely Commission recommendation was limited to barring the registration of registered industrial designs as distinguishing guises under the Trade Marks Act. Given that there could be an overlap between registered industrial designs and trademarks registrable in a form other than a distinguishing guise, the proposal in the text is not limited to barring registration of registered industrial designs as distinguishing guises only. See supra, text at notes 6-9.

The concern over the potential overlap of industrial design and trademark protection under the present legislation is illustrated by the Notice to the Patent Profession, Industrial Design Act, C.P.O.R. July 2, 1974, p. viii which states that the Industrial Design Office may refuse to register an industrial design on grounds including that the, "application is directed to trade mark subject matter more properly protected as a trade mark." The present statute does not deal expressly with such a ground for rejection, therefore, authority for it would have to be found as implicit in the concept of a registrable design in the statute as interpreted by the courts.

It has been proposed that the Trade Marks Act be amended so as to eliminate registrations for distinguishing guises. See Bill S-11, 4th Sess., 30th Parliament, 27-28 Eliz II, (1978-79). If the registration of distinguishing guises were deleted from a revised trademark statute, the need for a provision like that suggested in the text would be greatly reduced, but not entirely eliminated.

19. In addition to the action at common law (and its equivalent under the civil law in Quebec), protection is available for an unregistered trademark under the Trade Marks Act, supra note 3, s. 7.

20. Under the test of infringement, of course, not merely an exact reproduction of the fixed appearance of the registered design, but also any reproduction sufficiently similar in appearance to be mistaken therewith would constitute infringement. See supra Ch. 7, text at note 37.

21. The reason why the informational (as opposed to the purely ornamental) aspects of "designs" ought not to be included within the concept of a protectable industrial design is similar to the reason given for not permitting operational aspects of designs to be included within the concept of industrial design, supra, Ch. 1, text at note 20. That reason is that other forms of industrial and intellectual property protect the informational aspects and that extending industrial design protection to those aspects would be duplication of protection. In addition, those other forms of industrial and intellectual property protection reflect careful balancing of interests to achieve appropriate policies. Extending industrial design protection to the same subject matter as is protected by those other forms of intellectual and industrial property risks undermining and defeating those policies.

When such aspects of "designs" are used to give information about the source or origin of the products put on the market bearing the designs, they are performing the same function as trademarks. Such elements should be excluded from industrial design protection, therefore, and should be protected exclusively under the trademark law.

When such aspects of "designs" are used to convey information other than information about the trade source of the products, these elements are protected, if at all, by copyright. An example of such a "design" would be paragraphs of directions for use on the package of a proprietory medicine. Such material cannot be an industrial design since the latter includes only the appearance of the article to which the design is applied, which in this case could only be the appearance of some printing on the package, devoid of any specific informational content. Equally importantly, an industrial design might be ornamental under the proposals made supra, Ch. 1, text at note 53. Such printing attached to the package is not put there with the purpose or with the effect (in the eyes of the typical purchasers) of making the package attractive, special or distinct in appearance.

The recommended provisions, supra Ch. 2, text at note 75, which would terminate copyright protection when a work protected by copyright was applied as a corresponding industrial design would not apply so as to eliminate copyright protection for such material as it would not be being applied as an industrial design.

That part of the recommended definition of industrial design, supra Ch. 2, text at notes 18 and 19, which refers to designs applied to "functional articles", the latter being defined as articles having some function other than merely to convey information, would not in itself exclude words, numbers, letters and other informational symbols from constituting industrial designs. This exclusion referring to functions other than merely conveying information applies to the articles to which the design is applied and not the design itself.

22. The Designs Rules 1949, S.I., 1949, No. 2368, Rule 22.

23. Report of the Departmental Committee on Industrial Designs (1962) (U.K., Cmnd. 1808), p. 53. ("Johnston Committee Report").

24. Id.

25. The observation of the Johnston Committee indicates the difficulties inherent in attempting to analyse the nature of the intellectual experience of the appreciation of the visual and ornamental aspects of a design. Despite the comment made in the text supra at note 24, it is clearly not possible to disregard totally "information" which may be inherent in a design. For example, when the design is a representational illustration applied to an article (e.g., a representational painting applied to a tray), the fact that the illustration represents something is part of its visual and ornamental appeal and transmits information or knowledge.

Nevertheless, it is beyond the proper scope of industrial design protection to permit it to be used to acquire exclusive rights over modes of giving information on utilitarian articles. As indicated, *supra* note 24, that is a matter for trademark or copyright protection.

The recommendation made below in the text, drawn from the *Johnston Committee Report*, appears to be a workable way of reconciling the tension noted above.

26. In substance this may have been the position of the Johnston Committee. In discussing the recommendation, the Committee stated that words, etc. which were not of the essence of the design would be expressly excluded from the statement of monopoly in the registration. In respect of designs in which the words, etc. were of the essence of the design there would be a disclaimer of such material except as shown in the design. In substance then, there would be an appropriate form of disclaimer of protection for words, etc. in every registered design. *Report*, *supra* note 26, p. 54.

27. Consideration was given to recommending that disclaimers also be required when the design contained "any symbol intended to convey information." The intent of such a requirement would be to exclude design protection for any symbol that has come to be recognized as conveying specific information, *e.g.* the skull and crossbones symbol for poison or governmentally, or trade association regulated symbols of product qualities or grades. However, the prohibitions in the *Trade Marks Act*, ss. 9, 10 and 11, plus the specific prohibition recommended, *supra* Ch. 5 at note 97, should be sufficient to achieve the purpose.

The forms of the disclaimers required by the Office are likely to be like those suggested by the U.K. jurisprudence and the *Johnston Committee Report*, *supra* note 26. See the reference to *United Africa Co.'s Application*, (1959) RPC 182 in *Johnston* at p. 53. In that case it is suggested that if the words, etc. could be replaced by some outline figures and make no observable differentiation in the design for the normal eyes, then the words, etc. are not of the essence of the design. In such a case a complete disclaimer of protection for the words, etc. would appear appropriate. If the words, etc. could not be replaced without causing an observable differentiation, then that material is of the essence of the design. In that case the appropriate form of disclaimer would appear to be a disclaimer of protection of the material except as shown in the industrial design.

28. *Supra*, Ch. 5, at note 65.
This recommendation for mandatory disclaimers in these limited circumstances is not inconsistent with the recommendation, *supra* Ch. 5 text at note 66, that voluntary

disclaimers of parts of designs not be permitted as a general rule.

Since the industrial design system proposed in this paper would offer protection only against copying a registered design and would not give a right of exclusive use, the form of the disclaimer would be different from that proposed by the Johnston Committee. The form of disclaimer might state that no right to prevent copying of such word, etc. is acquired by the industrial design registration.

Since the proposed design system would protect only against copying there will be no danger of "monopolization" of words, etc. through design registrations (in the sense of an absolute right to exclusive use). As a practical matter, in a normal competitive environment, traders will draw inspiration to use words, etc. used by their competitors, from such use by their competitors. Adoption of such words, etc. in such circumstances is copying. An industrial design registration should give no right to preclude the copying of words, numbers or letters for such use.

29. Fox, The Canadian Law of Copyright and Industrial Designs, 2d Ed. (1962), pp. 663-664.

30. While in theory this requirement could also be applied to unregistered trademarks, as a practical matter it would be difficult to establish what are unregistered trademarks, the extent of their protection and their proprietors as a precondition of registration of industrial designs. The owner of an unregistered trademark which is adopted and used by another, without the owner's consent, as an industrial design, may have some right to prevent the use of the design so as to cause confusion (in the trademark sense) under passing off or s. 7 of the Trade Marks Act, supra note 3. No legislation to sort out the potentially difficult issues of entitlement in such cases is proposed. The issues ought to be further refined and resolved in the context of specific cases which arise for litigation. The clearer position of the proprietor of a registered trademark provides, quite properly, a further incentive for the owners of unregistered trademarks to seek registration at an early stage.

31. Supra, text at note 30.

CHAPTER 13

RELATIONSHIP OF INDUSTRIAL DESIGN TO UTILITY MODELS OR PETTY PATENTS

1. Introduction

Unlike some other countries[1] Canada does not have a separate statute providing protection for utility models or petty patents.[2] As noted above, the consideration of the extent to which industrial design protection ought to extend to operational or utilitarian features of designs makes reference to petty patent protection particularly appropriate.[3] This section considers the relationship between industrial design protection as outlined in this paper and petty patent protection. As will be made clear below, petty patents overlap to a large extent the field of standard patent protection. Analysis of, and recommendations concerning the possible role of a petty patent system within general Canadian patent policy are beyond the scope of this paper and this section does not purport to make such recommendations. Some reference to the issues raised by the possible role of a petty patent system in Canada, however, is inevitable in considering the relationship between industrial designs and petty patents.

This section begins below with a consideration of the possible arguments, particularly in the light of the subject matter proposed for the industrial design system in this paper, that there is a gap in coverage of intellectual property subject matter which could be filled by some form of petty patent or utility model system. The next part of this section deals with the possible argument that even if there is no gap in subject matter coverage, certain defects of the present intellectual property systems could be remedied through the introduction of a petty patent system.

2. Is There a Gap in Intellectual Property Subject Matter Coverage Without a Petty Patent System?

Proposals made above in this paper would insure that the industrial design system substantially excluded operational aspects of designs for utilitarian articles from protection under the system.[4] As a result it might be argued that there is a gap in the protection offered intellectual property in Canada in that no, or only inadequate protection is available for designs for utilitarian articles which constitute an indissoluable union of appearance or aesthetic elements and utilitarian features.[5]

One view of this alleged gap in protection could be that certain designs are specially deserving of protection as they are "meritorious marriages of both function and form likely to improve substantially the consumer welfare".[6] A special form of such protection would, however, tend to overlap available patent protection to the extent that it protected function. Such a criterion for protection would also be too subjective to be a workable basis upon which to extend intellectual property protection.[7]

A broader view of a supposed gap in Canadian intellectual property protection would be that all designs which are marriages of aesthetic appeal and function, whether specially meritorious or not, are denied adequate protection under the present law and the proposals for industrial design law made in this paper. As indicated in the analysis above, this view is not accepted.[8] To the extent that such designs involve aesthetic elements they can be protected under the industrial design system, and to the extent that they involve functional elements they can be protected under the existing patent system. Even if it were true that there were some designs that were such unions of form and function such that efforts to protect the two elements separately yielded unsatisfactory results, a system of protection which purported to extend to the two elements combined would yield unsatisfactory results and perhaps be unworkable.

The undesirability of permitting any form of intellectual property protection to extend to functional aspects of designs without the requirements of novelty and inventive step found in the patent system has been discussed above.[9] The unworkability of the application of novelty and inventive step requirements to aesthetic elements of designs has also been discussed above.[10]

Unlike the situation in some other countries, it cannot be argued that the standards of the inventive step requirement in the present Canadian patent law are sufficiently high to exclude minor inventions. Consequently, the introduction of a petty patent system cannot be justified on the basis of a need to protect such inventions as being at present unprotectable.[11]

A further claim might be made that a gap exists in present Canadian intellectual property protection in respect of "know-how".[12] Know-how is a very broad concept which is used here to refer generally to acquired knowledge which is useful commercially or industrially not only to its possessor but potentially to others as well, particularly to competitors of the possessor of the knowledge. Some types of know-how can be related to specific designs for articles or products.[13] Such know-how may fail to meet the standards for patentability which may lead to claims that an additional form of intellectual property protection is needed for such know-how. While such know-how may now receive some protection under the law of trade secrets or unfair competition, it may be argued that such protection is inadequate and therefore that a special form of intellectual property protection should be introduced.[14]

A claim for a special system for the general protection of know-how goes well beyond the field of industrial design protection and has proved impossible to deal with in this review of industrial design policy. To the extent that the claims for protection of know-how overlap the possible subject matter of industrial design protection, the analysis in this paper of the proper scope of industrial design protection implicitly considers these claims. The reasons for the proposed limits on industrial design protection are set out above,[15] and no reasons are seen to consider extending those limits in response to a generalized claim for special protection for know-how.

A claim for protection of know-how is, of course, a challenge to the established boundaries for the subject matter of all of the established forms of intellectual property protection. Implicitly, if not explicitly, overall policy analysis and recommendations in respect of each of those established areas must be, at least in part, an analysis of and response to claims for protection of know-how.[16] It may be desirable, nevertheless, to analyse and report on the claims for know-how protection per se in the context of a general study of unfair competition. Such a study has proved to be beyond the scope of what was possible to do in this paper.[17]

3. Petty Patent System as a Remedy for Deficiencies In the Present Intellectual Property Systems

A further type of argument that might be made in support of adopting a petty patent system in Canada is based not on the claim that there is a gap in the coverage of the present intellectual property systems, but rather on the claim that the present systems are deficient in other respects concerning the protection offered subject matter which does not fall within the present systems. Since the petty patent system and the patent system relate to the same general type of subject matter,[18] the proposals for a petty patent system are generally directed at supposed deficiencies in the existing patent system. Consideration of such issues is clearly beyond the scope of this paper, but the nature of these criticisms of the patent system and the supposed usefulness of a petty patent system will be briefly mentioned here as they are relevant to general question which has been raised of the advisability of Canada adopting a petty patent system.

Perhaps the chief argument that might be made in favour of adopting a petty patent system is that it is desirable to provide a relatively speedy and inexpensive method of securing protection for small inventions, particularly when owned by individuals and small businesses.[19] The chief method of insuring that the petty patent system provides a cheap, quick method of securing protection is to provide that there will be no search and examination for novelty, or for inventive step if that is a requirement for valid protection, by the Patent Office prior to issuing a petty patent.[20]

It is submitted that the supposed advantages of cheap, quick protection for the small inventor in the petty patent system would turn out to be largely illusory. While it is true that an issued petty patent could be obtained at relatively low cost and quickly, the issued petty patent would not likely meet the perceived needs of the small inventor. The Franki Committee observed that small inventors found it difficult to interest manufacturers in purchasing their inventions unless they had actually secured patents, and that it was not enough merely to have filed an application which would be of unknown validity.[21] An unexamined issued petty patent is likely to be regarded in the same way as a mere application under the present patent system by would-be purchasers. In addition the Franki Committee observed that small inventors were not able to afford the costs of infringement actions to defend their patents when issued.[22] The petty patent system would do little to resolve this problem.[23]

The unlikelihood of a petty patent system assisting the small inventor is well illustrated by the West German experience, which as Peter Kirby has noted show that large companies and not small inventors are the chief users of the German petty patent system.[24] Kirby notes that since there is no search or examination for novelty by the Patent office it is only the large and sophisticated inventor who has the knowledge, or the resources to acquire the knowledge, necessary to establish the validity and value of the petty patent. This is particularly important when it is remembered that there is liability for unfounded claims of infringement, i.e., threats of legal action based on a petty patent which proves invalid.[25]

In the light of the above analysis it may seem somewhat surprising that Australia has enacted a petty patent system founded on the Franki Committee recommendations which were apparently based on its stated goal of helping the small inventor.[26] Australia, however, like West Germany and unlike Canada has a deferred examination system in its main patent system. It has been observed that in West Germany large inventors have found that the petty patent is useful in conjunction with a deferred examination system.[27] This may help to explain Australia's adoption of the petty patent system.

Another argument that might be put forward favouring a petty patent system is that it would tend to be used to a large extent by Canadian, as opposed to foreign patentees and so might help to offset the extent of foreign domination of the Canadian patent system.[28] The above analysis concerning the likely relative use of a petty patent system by small and large inventors,[29] and other analyses[30] suggest that this is unlikely.

A further argument in favour of adopting a petty patent system is that it would reduce the burden on the Patent Office and make more efficient use of Patent office resources by shifting a large number of small inventions from the present patent system to the petty patent system. This claim raises fairly complex questions which are not endeavoured to be answered here. The U.K. Banks Committee, however, in its recommendation against the adoption of a petty patents system for the U.K. expressed doubt about the validity of the argument[31] and the Franki Committee does not appear to have expressly based its recommendation on this ground.[32]

A variation on the ground proposed above for the adoption of a petty patent system is that such a system would permit the strengthening of the main patent system in part by substantially increasing the standard of inventive step to qualify for patentability under the latter system.[33] No attempt is made to analyse this recommendation here as it involves questions of patent policy exclusively, which is not the subject of this paper.

In addition to the claimed advantages of a petty patent system it should be noted that there are claimed disadvantages as well.[34] These disadvantages reflect the problems of easy grant of large numbers of monopolies of uncertain validity and the potentially harmful effects on competition.[35]

4. Recommendation

The analysis of the relation of industrial designs to petty patents does not lead to a recommendation that a petty patent system be adopted in Canada.

5. Footnotes to Chapter 13

1. Baxter, World Patent Law and Practice (1968, 1982), Vol. 2, pp 28.7ff lists 13 countries with petty patent laws including Australia, Federal Republic of Germany, Italy and Japan.

2. The subject matter of the various national statutes differs somewhat, but Baxter, supra note 1, p. 28.7, states such statutes cover, "generally only the shape or configuration of an object so far as it serves some useful purpose".

3. Supra, Ch. 1, note 21.

4. "Operational" for these purposes is defined, supra Ch. 1, text after note 8.

The proposed law would bar registration of designs which primarily contribute to the articles to which they are applied performing their function in use (supra, Ch. 1. text after note 68), and of designs which the effect of protecting would be to give protection in respect of a method or principle of contruction or manufacture (supra, Ch. 1, text after note 83). In addition, the proposed statute would exclude from being infringing the copying of any aspects of registered designs so far as those aspects were attributable to, caused or prompted by any function which the article has to perform, (supra Ch. 1, text at notes 76-81).

The present Industrial Design Act, R.S.C., 1970, c.I-8, has been interpreted so as to exclude from registration designs which are solely functional, or which include a method or principle of construction (supra, Ch. 1, text at notes 9 and 10).

5. Supra, Ch. 1, text at notes 13-17.

6. Economic Council of Canada, Report on Intellectual and Industrial Property (1971), p. 122.

7. Designs Law Review Committee Report Relating to Utility Models, Second Term of Reference, (Government) of Australia, 1973) ("Franki Committee, 2d Reference"), pp. 9-10, also rejected such a scheme because of the subjectivity of the criterion for protection. While such a criterion is not suitable as a basis for recognizing intellectual property rights, it may be appropriate for other modes of stimulating such design innovations such as the awarding of prizes, awards or grants.

8. Supra, Ch. 1, text at notes 18-30.

9. Supra, Ch. 1. text at note 21. See also, Working Paper on Patent Law Revision (Ottawa, 1976), p. 192, "The object of including inventive step as an express criterion under the patent law, is, of course, to ensure that patents are not issued for things or activities which, in reality, would have been available to the public irrespective of the patentee's contribution."

A 1931 study of possible revisions to the U.K. patents and designs laws received submissions requesting the establishment of a new form of protection "intermediate in character between designs already registrable and inventions" which were referred to as "Useful Designs". Board of Trade, Report of the Departmental Committee on the Patents and Designs Acts and Practice of the Patent Office (1931 Cmd. 3829, p. 82. ("Sargant Committee"). The Committee concluded that the supposed combination of artistic and useful elements was "self-contradictory" and that the critical aspect of the requested protection was that in respect of the useful elements. It recommended no such form of protection noting that useful advances ought to be protected under the standards of the existing patent law, if at all.

10. Supra, Ch. 3, text at notes 4-8, and at notes 29-31.

11. Supra, Ch. 1. at note 21, Kirby, Peter, "Two Tier Patent Systems", (1971) PTIC Bulletin, Series 7, Vol. 31, p. 245 at 245, 249, 251, 253.

12. Kirby, Peter, "Industrial Property Protection for Software" (1974) 5 IIC 169 at 177-178 mentions briefly the problem of know-how protection, although he does not then urge the establishment of any particular system for such protection.

13. Jackson, Roy, "Industrial Design Law in Canada", (1955) 25 CPR 31 at 39 gives the examples of the measurement of 200 faces which was used to generate data for the design of a new hand-set for a telephone, and of the study of the physiology of school children preparatory to designing a new line of school furniture.

The Designs Law Review Committee, Report on the Law Relating to Industrial Designs, First Term of Reference, (Government of Australia, 1973) at p. 62 gives the example of boat hulls (which presumably may often be the result of research, and trial and error testing to get an efficient design) which may be easily copied through a moulding process. A similar example may be the design of automobile bodies in a manner which will reduce air resistance and so increase fuel economy. Apparently such designing is often the result of trial and error and much wind tunnel testing, McQuade Walter, The Shape of Cars to Come, Fortune, May 17, 1982 at 76.

While the results of such know-how may be embodied in useful new designs, such designs may reflect no inventive step. Jackson, Roy, A New Approach to Protection for the Design of New Products, (1956) 34 CBR 369 at 369-70, 378 describes the reaction of manufacturers who have designed new products to the inadequate nature of protection under the present Industrial Design Act which (wrongly, in Jackson's view) limits protection to "applied" ornamentation and fails to recognize that the functional and aesthetic elements of design are not readily severed. That reaction is to seek patent protection, although the designs contain "no broadly patentable features", which contains "picture" claims which are either, or both, invalid or easily avoided by modifying some elements of the "picture". See also Jackson, "Industrial Design Law in Canada," supra, note 13 at p. 35. Jackson's proposal to deal with the problems he sees would involve a copyright-based industrial design system. The response to the Jackson proposals in this paper is contained largely in the review of the application of copyright to industrial design, supra, Ch. 2, text at notes 126 and 127 and generally text at notes 139-163. See also Ch. 1, supra on the role of functional elements in industrial design protection.

14. Some of the alleged inadequacies of trade secret or confidential information protection are suggested supra Ch. 2 in footnote 150 in which some reasons why a plaintiff might prefer the extension of copyright protection to such designs (as is suggested has been done in some cases in the U.K.), to the use of a trade secret or confidential information action.

The general basis for the claim for special protection for such know-how is the same as that for other subject matter protected by intellectual property.

The generation of the useful know-how requires significant investments which are easily appropriated by others (including competitors of the investor) by copying the end-product. As a result such investment becomes uneconomic and there is a "market failure" which results in less than an optimum amount of such investment. Supra, Ch. 4, Part I.

A trade secret or confidential information action may be seen as an inadequate method of protection for all the usual reasons it has been argued that specific intellectual property rights ought to be recognized to improve upon general unfair competition rights. In particular, the lack of some specific, registered intellectual property right means that the plaintiff must prove the existance of the right against each alleged infringer. The lack of a specific registered right also makes even more difficult the obtaining of interlocutory relief against infringement.

15. Supra Ch. 1, 2 and 3 in particular.

16. Copyright In Canada - Proposals for a Revision of the Law (Ottawa, 1977), Working Paper on Patent Law Revision (Ottawa, 1976), Working Paper on Trade Marks Law Revision (Ottawa, 1974).

17. Such a study would, in part, pull together several threads noted in this paper. The call for the protection of investments not protected by the present patent system (either because the results of the investments did not reflect an inventive step or because they did not embody some subject matter protected by the patent statute such as machine, process, etc.) was noted supra note 12. An analogous perceived deficiency in established copyright protection (which was thought to protect only the specific form of literary expression inherent in a work) appears to have led the courts to extend copyright protection to works such as directories which reflected the investment of labour and other resources (which the courts stated expressly that it was their object to protect), but little that would be recognized as a specific literary form of expression. See Fox, The Canadian Law of Copyright and Industrial Design, 2d Ed. (1967), p. 107.

The U.K. courts, in particular, have used the theory of those directory or compilation literary work cases as the rationale for the extension of copyright protection as artistic works to functional industrial designs. Supra Ch. 2, text at notes 148. That same theory is reflected in the trade secret and confidential information cases which extended trade secret protection beyond the "inventive" secret (which could not be duplicated merely by hard work) to material that was simply, "the result of work done by the maker upon materials which may be available for the use of anybody". Saltman Engineering Co. Ltd. (1948) 65 RPC 203 at 215 per Lord Green. As with the other forms of protection noted above, the purpose of such protection is to prevent a copyist from appropriating the fruits of the original inventor's investment in developing the material copied.

Above, Ch. 2. text at notes 49 and 50, and at notes 141 to 148, and elsewhere (e.g., Working Paper on Patent Law Revision (1976), pp. 18-21) it has been argued that the right to copy is fundamental to an effective competitive system. The existing intellectual property systems have endeavoured to strike a balance between preserving the right to copy and protecting investments in innovations. That balance has been struck by setting specific criteria which result in limiting the subject matter to be protected by those systems. Those criteria appear to reflect judgments about what subject matter is particularly valuable not only to the creator but to society and therefore ought to be encouraged, as well as about what subject matter from which others may be excluded without unacceptable costs to those others or to society.

Intellectual property systems have generally not been based entirely on some principle that whatever others wish to copy ought to be protected. The claim for a system to protect "know-how" appears, however, to be based largely on such a view.

Outside of copyright, the most dramatic potential developments in respect of such claims for protection are in the area of "unfair competition". Such unfair competition claims present difficult legal questions such as the extent of exclusion of such claims implicit in the existing intellectual property law (see, e.g., Avco Corporation, supra Ch. 2, note 148) and the related issues of constitutional jurisdiction, as well as fundamental economic and justice policy issues.

18. Kirby, supra note 11, at p. 245 concluded that the "only satisfactory way of defining a utility model is as part of a combination, namely as the lower level of a two-tier patent system".

19. Sargant Committee, supra note 9, p. 82; Franki Committee 2d Reference, supra note 7, p. 11.

20. The Australian and West German petty patent systems involve no search or examination for novelty or inventive step. The German system has been described as offering quick, cheap protection, but the Japanese system which does involve a search and examination has been described as taking almost as long to secure protection as the regular patent system. Kirby, supra note 11, pp. 246-47.

The Australian, West German and Japanese petty patent systems all have a requirement of inventive step to qualify for valid protection. In the Japanese system, the test is applied on application and examination, whereas under the Australian and German systems the test is applied as part of the defence of invalidity in an infringement action, or in the form of an action to invalidate the patent.

If a Canadian petty patent system were adopted it should contain a requirement of inventive step, at least to be applied as in the German and Australian law. See Franki Committee, 2d Reference, supra note 7, p. 15; Sargant Committee, supra note 9, pp. 84-85.

21. Franki Committee, 2d Reference supra note p.11.

22. Id.

23. Id., p. 15

24. Kirby, supra note 11, p. 247

25. Id.

26. Supra, note 21. Patents Amendment Act 1979, No. 9 of 1979, (Aust.)

27. Kirby, supra note 11, p. 247.

28. On the extent of foreign participation in the Canadian patent system see Working Paper on Patent Law Revision (1976) pp. 1-2.

29. This argument is usually based on the view that Canadian individuals and small companies would be able to use a petty patent system to a greater extent than they do the regular patent system.

30. Kirby, supra note 11, p. 250-51

31. The British Patent System, Report of the Committee to Examine the Patent System and Patent Law, (1970) Cmnd. 4407, pp. 145-146. ("Banks Committee")

32. Franki Committee, 2d Reference, supra note 7, pp. 7, 14. The Committee did express the hope, however, that introduction of the petty patent system would improve the patent system by encouraging petty patent applications to be filed rather than patent applications in all cases in which the former would yield appropriate protection, at pp. 8-9.

33. Kirby, supra note 11, p. 253.

34. These disadvantages would appear to apply to the petty patent systems envisioned in each of the arguments for such a system except, perhaps, the final one, supra text at note 33. That recommendation could encompass a two-tier patent system in which the lower level of protection had substantially the same requirements for protection as the present system. Another variation of such a system could set off the disadvantages of lowered standards of protection in the lower tier (see text below) by the supposed advantages of increased standards in the higher tier.

35. Supra Ch. 2, text at note 45. Banks Committee Report, supra note 31, p. 146. In its assessment the Franki Committee, supra note 7, pp. 14-15, stated that the fact that its proposed petty patent would have a short term and a single claim would offset the possibility of unreasonable restrictions on industry arising. The Committee obviously did not share the Sargant Committee's, supra note 9, p. 85, doubts that the limitation of claims would provide an adequate protection against the adverse effects of such a system.

CHAPTER 14

INTERNATIONAL CONVENTIONS

1. Paris Convention

Canada has adhered to the 1934 level of the Paris Convention which forms an international union for the protection of industrial property.[1] "Industrial property" is defined in the Convention as including "industrial designs".[2]

The first issue that the Convention raises in relation to the proposals for revision of the Canadian industrial design system is whether the Convention applies to the scheme for industrial design protection proposed. The only question which might be raised in this regard is whether offering protection only against copying[3] and requiring only originality and not novelty as a condition of protection[4] transforms the proposed scheme into a form of copyright protection rather than industrial design protection. If this were the result the proposed scheme would be taken outside the scope of the Paris Convention and be put within the scope of the international copyright conventions to which Canada has adhered.[5]

There can be little doubt that the proposed scheme for the protection of industrial designs falls within the Paris Convention. The subject matter of protection, which ought to be the most critical test of the application of the Convention, is classically that which has been recognized as the subject of industrial design.[6] Furthermore, other than offering protection only against copying and requiring originality rather than novelty, the proposed scheme offers a mode of protection like that of typical industrial design systems, for example, in requiring registration as a condition of protection.[7] In addition, protection only against copying for subject matter which meets a test of originality is not inconsistent with any of the specific requirements of the Convention which apply to industrial designs,[8] and cannot be regarded as inconsistent with any theories of protection inherent in the Convention as a whole.[9]

The application of the Convention to the industrial design system proposed in this paper has two major effects. First, qualified applicants under the system will be able to use their applications under it as a basis for claiming Convention priority for their applications for the same designs under the industrial design law of other Union countries.[10] Second, the system will have to conform to certain requirements of the Convention, including the fundamental rule of "national treatment" which requires that the system offer the same protection to persons who are entitled to the benefit of the Convention as is offered to Canadians.[11]

A further major requirement of the Convention is that of recognizing Convention priority in respect of applications to register. The present Industrial Design Act does give effect to Canada's obligations under the Convention in this respect.[12] The revised legislation should have a similar provision, or perhaps one modelled on the analogous provisions in the trademarks legislation which refer more specifically to the provisions of the Convention.[13]

Under a system such as that proposed in this paper in which every creator (or other proprietor) of an original design would be entitled to register that design even though it was identical with earlier registered or applied-for designs,[14] the Convention priority will play no role in determining conflicting claims to register a design (as there will be no such conflicts). Convention priority will be relevant and helpful to applicants under the system, however, in respect of the proposed rule that any publication of the design by the applicant or those related to it in title, anywhere in the world prior to the date of application in Canada will bar the right to secure registration in Canada.[15]

Various other provisions of the Paris Convention have been referred to in parts of the paper above in reconciling the recommendations made for the revised industrial design system with the stipulations of the Convention.[16]

2. Berne Convention

Canada has adhered to the 1928 level of the Berne Convention which forms an international Union for the protection of literary and artistic works.[17] "Literary and artistic works" are defined in the Convention to "include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression."[18] This language appears broad enough to include what are often referred to as works of "applied art"[19] and "works of art applied to industrial purposes"[20] which would include many industrial designs as it is proposed to define the latter in this paper.[21] The Convention makes mandatory the protection of literary and artistic works as defined, but greatly qualifies the obligation to protect applied art by indicating that it need be protected only "so far as the domestic legislation of each country allows."[22]

The first question to deal with in respect of the Berne Convention is whether its requirements apply to the proposed industrial design system itself on the argument that the system is a form of copyright protection.[23] Since the proposed scheme does not amount to the extension of the copyright system to applied art but is rather a separate system of industrial design protection, the requirements of the Berne Convention do not apply it.[24]

A related question is whether the proposed provisions by which works otherwise protected by copyright are to lose that copyright protection to the extent that they are applied as industrial designs is in any way inconsistent with Canada's obligations under the Berne Convention.[25] Again, Article 2(4) of the Convention provides the basis for excluding such provisions from any limitations that might be imposed by the Convention.[26]

One implication of Canada denying copyright protection to industrial designs as has been proposed may be that the proprietors of industrial designs which originate in Canada will not have a right guaranteed by the Convention to claim copyright protection for their designs in every other country of the Berne Union in which industrial designs receive copyright protection.[27] The most recent revision of the Convention (1971) provides that when works of applied art are protected in one country of the Union solely as industrial designs (as proposed for Canada in this paper), such works originating in that country are entitled to claim only industrial design protection in other countries of the Union, even if those other countries also protect such works under copyright. However, that revision of the Convention also provides that if any such other country does not have an industrial design system, it is required to protect such designs as artistic works under the copyright system.[28] This result cannot be seen as an objection to the proposals made in this paper. If Canada offers only industrial design protection to particular designs as the only appropriate mode of protection, it can hardly object if other countries offer only similar protection to such designs which originate in Canada. Under the 1971 revision of the Convention, those countries which do not offer such industrial design protection would be obligated to extend copyright protection so that designs originating in Canada would be entitled to one type of protection or the other in countries adhering to the 1971 level.[29]

The actual obligations, however, of other countries of the Berne Union to extend copyright protection to industrial designs originating in Canada if Canada does not offer copyright protection to such designs is complicated by the fact that countries have adhered to the Convention at different levels. In fact an argument can be made that under the rules which govern the relations among countries which have adhered to the Convention at different levels, the obligation of most other countries of the Union would be that if they have copyright protection for applied art originating in their own countries, the same protection must be extended to all works of applied arts originating in Canada, regardless of what, if any, copyright protection is offered in Canada to works of applied art.[30]

An argument which might be made in support of extending copyright protection to works of applied art (industrial designs) might be that it would permit the proprietors of designs originating in Canada to claim copyright protection for such works in other Berne Union countries.[31] It should be noted, however, that other Union countries are not compelled by the Convention to offer copyright protection to applied art.[32] Copyright protection will be available only in those countries which in fact offer such protection. In some countries such protection may be unavailable, and in many it is at least greatly limited in its application.[33] A broad scope of copyright protection for works of applied art and industrial designs in Canada could do nothing to compel such countries under the Convention to broaden the scope of copyright such countries had to make available to works or designs originating in Canada.

A final aspect of the Berne Convention commented upon here is whether anything in the study of industrial design law reform would lead to the recommendation that Canada adhere to the substantive provisions of the most recent level of Berne (1971). There would appear to be no advantages for Canada to such adherence under the proposals made in this paper for industrial design law revision.

3. Universal Copyright Convention

Canada has also adhered to the 1952 level of the Universal Copyright Convention ("UCC").[34] The only provision of this Convention which deals expressly with applied art is Article IV which requires that insofar as works of applied art are protected under the copyright system of a member country, the term of protection shall not be less than ten years.[35] Since the Convention does not require the protection by copyright of applied art and since the proposals in this paper do not extend copyright protection to applied art,[36] the requirement of a minimum term is not relevant to these proposals.[37]

Article IV also provides that no member state is required to protect works of particular classes for a period longer than works of such classes are protected in the countries in which the works were first published.[38] The effect of this aspect of Article IV would mean that if Canada offered copyright protection to works of applied art, it would not be possible to insist under the Convention that such works published in Canada be protected in other member countries for a period longer than such works received protection under the Canadian law. Since the proposals made in this paper involve no copyright protection for applied art in Canada, this provision is not relevant.

It should be noted that when two countries are members of both the UCC and Berne, their relations must be governed by Berne and not the UCC.[39]

4. Hague Agreement on Designs

An international agreement was concluded in 1925 and revised in 1934 and 1960 which creates an arrangement by which a single application filed at the International Bureau in Geneva constitutes an application for industrial design registration in each of the member countries of the agreement.[40] The 1960 revision eliminated a number of the most serious objections that would be made the 1935 revision in the light of the recommendations made in this paper for Canadian industrial design law. There remain, however, several reasons why it is not recommended that Canada adhere even to the 1960 Hague Agreement.[41]

First, while the examination by the Industrial Design Office may be somewhat simplified under the proposed system from that under the present law, it is doubtful that adequate examinations could be carried out in respect of applications filed in Geneva under the Agreement.[42] Second, the major advantage to Canadians of Canada's adherence to the Agreement would be to facilitate and make less expensive the obtaining of design protection in foreign countries. Therefore the limited membership of the Agreement and the absence from membership of several of Canada's major trading partners greatly reduces the value of membership to Canada.[43] One of the chief possible effects of Canada adhering to the Hague Agreement would be to increase the number of foreign originated design applications and registrations in Canada. Given the doubts expressed above about the benefits to Canada of changes in the Canadian industrial design system which would increase the amount of design protection,[44] and given the frequently expressed concerns about the implications of the relatively high degree of foreign participation in the Canadian intellectual property systems,[45] a move which would increase the number of foreign owned design registrations in Canada could be recommended only if it brought with it clear advantages. There do not appear to be such clear advantages for Canada in respect of the Hague Agreement.

5. Recommendations

Nothing in the analysis or recommendations for industrial design law revision indicates any need for or advantage in Canada adhering to the more recent levels of the Paris or Berne Conventions or the UCC. It is recommended that Canada not adhere to the Hague Agreement on Designs.

6. Footnotes to Chapter 14

1. Convention of Paris for the Protection of Industrial Property as revised by the Act of London, 1934, and reproduced in WIPO, Manual of Industrial Property Conventions, Vol. 1. ("Paris Convention, 1934").

2. Id., Art. 1(2).

3. Supra, Ch. 7, text at note 15. Bodenhausen, Guide to the Paris Convention (BIRPI, 1968), p. 22, "The proprietor of such industrial design will usually, under existing legislation, have the exclusive right to make, sell and use articles embodying such design.

4. Supra, Ch. 3, text after note 35.

5. Berne Convention, 1928 and the Universal Copyright Convention, 1952, see below text after note 16 and after note 34.

6. See the proposed definition of industrial design supra Ch. 1, text after note 40 and after note 52, Ch. 2 text at notes 14 to 19, and Ch. 5 text at notes 31 to 62. This definition is quite similar to the concept of industrial design under the present Canadian law, which in turn is very similar to the present U.K. law concept of industrial design, supra Ch. 1 at notes 4 to 8.

The Convention gives no definition of "industrial design," however, Bodenhausen, supra note 3, at p. 22 states, "Industrial designs may be described as consisting of those ornamental aspects or elements of a useful article, including its two-dimensional and three-dimensional features of shape and surface,, which make up the appearance of the article." Bodenhausen invites comparison, in a footnote to his suggested definition, with proposed (but not enacted) U.S. legislation that would have provided protection only against copying.

The proposed U.S. Design Protection Act, 1980, H.R. 4530, 97th Cong. 1st Sess., which would offer protection only against copying and which would require originality and not novelty as a condition of protection (and is in fact presented as an amendment of the U.S. copyright law) may have been drafted with the expectation that the Convention would apply to it. See s.910 which provides for recognizing priority rights in applications which have been filed earlier in foreign countries which recognize similar priorities for applications filed in the U.S. Of course, the form of drafting of s.910 (which makes no express mention of the Convention) is consistent not only with the U.S. recognizing its Convention obligations, but also with providing basis for negotiating reciprocal bilateral arrangements outside the Convention.

7. Supra, Ch. 5, text at notes 7 to 11.

8. See generally, the text and notes below which demonstrate the application of the Convention to the proposed system.

9. Art. 5 quinques, which was introduced in the 1958 revision (and is not, therefore, part of the 1934 revision to which Canada has adhered) states, "Industrial designs shall be protected in all the countries of the Union." Bodenhausen, supra note 3, at p. 86 notes that this provision does not require member states to protect industrial designs by any particular means and notes that the means chosen could include special legislation, copyright or law on unfair competition.

Board of Trade, Report of the Departmental Committee on Industrial Designs (1962, U.K. Cmnd. 1808) ("Johnston Committee Report"), pp. 99-100, recommended that the Paris Convention application priority provisions be applied to its proposed design copyright system and noted, "It may be that the United Kingdom is bound to allow these [Convention priority applications] by its obligations under the Convention."

Eder, E., Industrial Designs in the Whitford Committee's Report, (1977) CIPA 470 at 486 suggests that registration under a copyright-type industrial designs system he proposes could be used as a basis for claiming priority under the Paris Convention in industrial design applications made in other Union countries.

Ladas, supra note 7, at 838-839, seems to suggest that it is consistent with the "general acceptance of the system of providing for protection of industrial designs by special legislation calling for registration of designs" to consider using either a "patent or copyright approach" to such legislation. In the analysis which follows Ladas indicates that special design protection legislation which exists in most countries in fact protects against any reproduction and not just against copying, and that in most such legislation some kind of novelty and not just originality is required as a condition of protection. It is only in relation to the protection of designs automatically without registration or deposit, however, that he makes the statement that this "would amount in effect to extending copyright law protection to designs," pp. 839-840.

Ladas notes, pp. 869-870, that the statement adopted by AIPPI in 1966 as basic points on the minimum basis of protection of industrial designs appears to recognize a copyright approach to scope of protection, i.e., protection against copying. The system of protection contemplated by these points was one which would be separate from the copyright system.

10. See below, note 12.

11. Paris Convention (1934), Arts. 2 and 3. It is that requirement that prevents the use of the industrial design system to offer special incentives and protection to Canadian designers that are not offered to foreign designers.

12. Industrial Design Act, R.S.C. 1970, c.I-8, s.29. See also Industrial Designs Rules, CRC, 1978, c.965, Rule 9.

The inadequacies of the present Industrial Design Act have caused some difficulties in giving effect to the Convention priority obligation. The Convention (Art. 4) provides that when an application has been made in one country of the Union, the applicant has a six month priority period within which to file in other countries of the Union. The Convention further provides that the applicant's priority of entitlement to secure protection shall not be defeated by the filing of an application in such other countries by another person after the date of the Convention applicant's priority date (first filing in a Union country) but before the applicant has actually filed in the other country, provided that such filing in any other country occurs within the six month priority period.

The present statute is inadequate as it gives no clear indication of the basis upon which priority of entitlement to register is to be determined in general, e.g., whether the system is "first-to-file" or "first-to-design." The Act simply states that an application is to be rejected if it is substantially similar to one already registered (ss.5 and 6). The Industrial Design Office has tried to rectify this inadequacy by endeavoring to register designs in the order in which applications are received, such that an earlier filed application will block the registration of a later filed application for the same design (since the earlier will have been registered first, ss.5 and 6 can be applied to deny registration to the later).

At one time the Office proposed to give effect to the Convention obligation of priority by delaying the granting of all registrations to six months after the Canadian application date or the Convention priority date if such was claimed for the application. See C.P.O.R. 9 April 1974, p. xxii and C.P.O.R. 2 July 1974, p. x. However that policy was abandoned for one in which designs will be registered if examination is completed within six months of the Canadian application date or claimed Convention priority date. In such cases a notice is issued with the registration certificate that, if during the Convention priority period another application is received which claims an earlier filing date through Convention priority, that other application will be registered. When the second application is registered both registrants receive notice of each other's registration and their attention is drawn to the sections of the Act which provide for the exclusive rights of registrants in their designs. This procedure leaves it to the registrants in such situations to take any action they see appropriate, including a court application by one registrant to expunge the other's registration. See C.P.O.R., 1 April 1975, pp. xi-xii.

13. Trade Marks Act, R.S.C., 1970, C. T-10, ss.2 "Convention," "country of origin," "country of the Union," 30(1), 33. Substantially similar provisions appeared in the proposed revision of the legislation, Bill S-11, 4th Sess.., 30th Parl., 27-28 Eliz. II (1978-79), ss.2; 29(1),(2); 30. However, Bill S-11 introduced a further provision, s.8(1), by which countries which are not members of the Paris Union can be designated by proclamation as having extended the benefit of their legislation to Canada (typically as the result of a bilateral, reciprocal agreements with Canada) and so be treated as if they were a country of the Union for the purposes of the Act.

The Industrial Design Act, s.29 gives the same result as the proposed s.8(1) of Bill S-11 without the need of proclamation as it extends the priority to any application files, "in a foreign country that by treaty, convention or law affords a similar privilege to the citizens of Canada." Section 29 (and, s.8(1) of Bill S-11) may raise a question of whether Canada could end up in breach of its Paris Convention obligations in certain (and probably very unlikely) circumstances by deeming a country which is not a member of the Union to be treated as if it were, for the purposes of such legislation. As a hypothetical example imagine that Canada has designated a particular non-Union country under such a provision as the result of a bilateral agreement with that country. Suppose further that an applicant files an application in that country and three months later files an application (for the same design or trademark) in a Union country, and suppose that the applicant is one entitled to the benefit of the Convention by Art. 3, for example. Another person files an application for registration (of the same design or mark) in Canada more than six months after the filing of the application referred to above in the designated country, but less than six months after the application referred to above in the Union country. The original applicant referred to above then files in Canada, more than six months after filing in the designated country but less than six months after the filing in the Convention country. According to the effect of s.29 (and the proposed 8(1)) the original applicant would have lost his priority right, having filed in Canada more than six months after his first filing in a deemed Union country. Would that be consistent with our obligations under Art. 4 of the Convention to give a six month right of priority to qualified persons who file in Convention countries (in the hypothetical the filing in Canada did occur within six months of the first filing in an actual Union country)? A similar question would arise if the objection to registration in Canada had been publication of the design (under the proposed designs system, supra Ch. 4, text at note 17) which occurred more than six months after the first application in the designated country, but less than six months after the application in the Union country, and before actual application in Canada in the above hypothetical situation. (This is a more realistic example under the proposed designs system as pointed out below in the text as under the proposed designs system priorities will not be relevant to priorities of entitlement to register, but will be relevant to the publication bar to registration.)

This hypothetical may be too unlikely to cause any reconsideration of the policy inherent in a provision like s.8(1) of Bill S-11. However it may cause us to consider again the general consistency of such provisions with our Convention obligations, in particular whether our policy ought to be to encourage other countries to join the Convention rather than to make reciprocal agreements with them.

Section 29 of the present Industrial Designs Act extends its benefits to persons to whom Canada is not required by Convention to extend the right of priority. That section benefits "any person" who files an application in a Convention country. Under the Convention Canada is only obligated to extend priority to persons who are entitled to the protection of the Convention under Articles 2 and 3, i.e., persons who are nationals of a Convention country, who are domiciled in such a country or who have a real or effective industrial or commercial establishment in such a country. Bodenhausen, supra note 3, p. 35. The Trade Marks Act provisions, supra do limit their effect to persons protected by the Convention.

14. Supra, Ch. 3, text after note 35. Originality means only that the design has not been copied from an earlier design, and that the design reflects a minimum contribution of skill and effort by the designer, supra at note 34.

15. Supra, Ch. 4 text at note 17. Paris Convention (1934), Art. 4B stipulates that publication which occurs after the first Convention filing and before the actual application in Canada, provided that the application in Canada is made within the six month Convention priority period, cannot bar application and registration in Canada.

A further question that will have to be addressed is whether applications in foreign countries for utility models ought to be permitted to found a claim for a Convention priority for an industrial design application in Canada. Paris Convention (1934), Art. 4E(1) states that when an industrial design is applied for, claiming a priority based on an earlier filing in a Convention country of a utility model application, the period of priority in six months. Bodenhausen, supra note 3, p. 52, states, "It will rarely happen that an industrial design and a utility model concern the same subject because, in principle, the first concerns ornamental aspects of an industrial article whereas the latter relates to its technical novelty.

It is not clear on the face of Article 4E(1) whether Canada would be compelled to accept a claim of priority based on a utility model if it could be construed as industrial design subject matter, or whether the article simply states that if Canada agrees to permit a utility model application to found a priority claim, the period must be six months. Article 4E(2) referring to utility models and patents does appear to be mandatory and may assist in interpreting 4E(1). In any case given the broad exclusion of operational elements in the proposed industrial design system, supra Ch. 1 text at notes 37 to 83, the general policy ought to be that utility model applications cannot be used as the basis for Convention priority claims for industrial design registrations. At a minimum there ought to be a clear burden on any applicant claiming such priority to establish that its application represents the extraordinary case in which such a claim could be made.

16. Supra, Ch. 5, note 97; Ch. 4, notes 23 and 36; Ch. 11, note 2; Ch. 8, note 4; Ch. 7, note 54. In relation to the recommendation in Ch. 7. concerning the protection of innocent infringers and the encouragement of marking as a method of giving notice of a claim to protection, see Bodenhausen, supra, note 3, p. 74 for comment supporting the view that compulsory licenses are consistent with Art. 5B. Bodenhausen, supra note 3, p. 81 suggests that Art. 5bis(1) which requires a three month period of grace for the payment of any fees required for the maintenance of industrial property rights does not apply to renewal fees. The proposed renewal fee scheme, supra Ch. 8, text at note 9 does have a three month period of grace and therefore even if Art. 5bis does apply, the recommendation is consistent with that article. It should be noted that 1958 and subsequent revisions of the Convention extends the period to six months, but Canada has not adhered to such a level.

17. Berne Convention for the Protection of Literary and Artistic Works, as revised by the Act of Rome, 1928, see Schedule III, Copyright Act, R.S.C. 1970, C.C-30. ("Berne Convention, 1928").

18. Berne Convention, 1928, supra note 17, Art. 2(1). This language has been reproduced as part of the Copyright Act, supra note 17, in s.2, "every original literary, dramatic, musical and artistic work." Note also Copyright Act, s.4 which incorporates the term defined in s.2 in stating what subject matter is protected under the Act.

In Cuisenaire v. South West Imports Ltd., (1967) 54 CPR 1 (Ex. Ct.) at 11-19, Noel, J. ruled that the reference to "production in the ...scientific...domain" in s.2 of the Copyright Act, supra, did not extend the subject matter of copyright production beyond the established view of protection extending to literary, dramatic, musical or artistic works. The result in Noel's judgment in this case was affirmed in (1968) 57 CRP 76 (SCC).

19. More recent versions of the Convention expressly include "works of applied art" as an example of one of the types of works included within the expression "literary and artistic works" which are to be protected under the requirements of the Convention. See Berne Convention, Paris Act of 1971, Art. 2(1), as reproduced in UNESCO, Copyright Laws and Treaties of the World (1978).

20. Berne Convention, 1928, Art. 2(4).

21. Supra, note 6. Supra, Ch. 2, text at notes 2 to 13.

22. Berne Convention, 1928, Art. 2(4).

23. Supra, text at notes 3 to 5. If the Berne Convention did apply it would preclude the requirement of registration as a condition for protection, supra Ch. 2, note 42. It would also appear to preclude the recommended provisions in respect of marking articles bearing designs with a warning of the claim of design protection, supra Ch. 7 text at note 54. See also Ch. 2, note 43 and Reform of the Law Relating to Copyright, Designs and Performers' Protection, A Consultative Document (1981, U.K. Cmnd. 8302), p. 7 ("U.K. Consultative Document, 1981").

24. Supra, text at notes 6 to 9. Article 2(4), supra note 22, clearly gives Canada the right to determine whether or not to apply its copyright system to works of applied art. The effect of the proposals made in this paper is not to apply the copyright system to applied art.

The successor to Art. 2(4) of the 1928 level in the most recent level (1971) of the Convention, Art. 2(7), expressly mentions "industrial designs" and appears to recognize them as a separate form of protection outside the scope of the Convention.

25. Supra, Ch. 2, text at notes 69 to 99.

26. Supra, note 24.

Article 2(4) [and its successor in the most recent version of the Convention (1971), Art. 2(7)] clearly gives signatory countries the right to decide whether to apply their copyright systems at all to works of applied art. If a country decides to apply its copyright system to such works, however, it is less clear that Art. 2(4) [or 2(7)] gives the right to include provisions in that part of the copyright system that are not consistent with the requirements of the Berne Convention which apply to copyright systems in general, e.g., that there be no formalities as a condition of protection. One view is that Art. 2(4) [and 2(7)] give the right to decide simply whether or not the copyright system shall apply to such works, but once it is decided to apply it, all the usual requirements of the Convention apply. See Jehoram, H.C., "Specific Design Protection and Copyright in Benelux and Dutch Law," in Jehoram, ed., Design Protection (1976) at pp. 28-29. Another view is that Art. 2(4) [and 2(7)] not only give the right to decide whether to apply the copyright system to applied art, but also to introduce special provisions and conditions into that part of the copyright system which would be inconsistent with the requirements of the Convention for copyright systems in general. The language of Art. 2(4) [and 2(7)] may be sufficiently ambiguous to be consistent with either interpretation. However, the language of Art. 2(7) [which may be used to assist in interpreting 2(4) to the extent appropriate] may suggest that the latter interpretation is intended. That article begins "[subject to the provisions of Article 7(4)," then makes its ambiguous statements about the extent of freedom of action. Article 7(4) (introduced first in 1967), provides that if works of applied art are protected by copyright the minimum term of protection shall be 25 years. The use of this "subject to" clause seems to suggest that otherwise member countries have complete freedom to set the terms of their copyright law applying to applied art. If this were not so, it would make little sense to refer only to the limitation on term in 7(4) in the "subject to" clause since there would be a number of other limitations on the freedom to enact such legislation arising out of the Convention such as the prohibition of formalities as a condition of protection. The language of WIPO, Guide to the Berne Convention (1978), p. 22, para. 2.24 commenting on Art. 2(7) does not deal with this issue explicitly, but does seem more consistent with the latter view of the meaning of Art. 2(7) [and therefore, of 2(4)]. The comment in para. 2.25, however, in which it is stated that there is an obligation to protect works of applied art "without formality" seems more consistent with the former view of the Article indicated above.

An argument in favour of the former view, supra of Art. 2(4) and its successors in later levels of the Convention, however, can be taken from the history of the Convention. In the 1948 revisions Art. 7(3) was introduced which expressly gave signatory countries the power to set the duration of protection for works of applied art. Arguably, no such express clause would have been necessary had the article giving signatories the power to set the conditions under which works of applied art were protected [Art. 2(5) in the 1948 level, the successor to Art. 2(4) of the 1928 level] given signatory countries complete freedom to introduce conditions into their copyright law which extended to applied art.

The above comments about the meaning of Art. 2(4) are relevant to the subject of this paper in two ways. First, if the proposed industrial design system were seen as a copyright system (which it is not, supra at note 24) extending to applied art, its legitimacy within Art. 2(4) would depend on the view taken of that Article. If the latter view, supra, were taken, then the proposed scheme would not be in breach of the Article as Canada would have complete freedom to determine the terms of the system. If the former view, supra, were taken, however, the proposed system would not be consistent with Article 2(4). The second relevance of these comments is in respect of any submissions which might be received during the period that the recommendations of this paper are being discussed that, contrary to the recommendations made in this paper, the copyright system ought to apply to applied art (industrial designs) in some way. The interpretation to be given to Article 2(4) will determine whether there is freedom to introduce special terms into that part of the copyright system which extends to applied art. It should be noted that if the latter view is taken of Art. 2(4), Canada would not appear even to have the right to set a specially shortened term for copyright protection of applied art (as the U.K. had done, for example, in the Design Copyright Act, 1968, supra, Ch. E at note 91.) The right to set a specially shortened term was not expressly mentioned in the Convention until the 1948 revision, Art. 7(3). In 1967 that article was further amended by adding the condition that a minimum term of 25 years be provided, Art. 7(4).

Developments in the U.K. may indicate different views having been taken of the meaning of Art. 2(4) and its successors in later revisions of the Convention--the U.K. now adheres to the 1948 level of the Convention in which Art. 2(5) is similar to Art. 2(7) of the 1971 level, but without the reference to any provision on term of protection. (In fact Art. 7(3) of the 1948 text expressly gives signatories the right to determine the length of term for works of applied art.) The Johnston Committee Report, supra note 9, recommended a "copyright-type" industrial designs system that would have contained terms inconsistent with the requirements of the Berne Convention applicable to copyright systems in general, but it did not refer at all to the Convention. Copyright and Designs Law, Report of the Committee to Consider the Law on Copyright and Designs (1977, Cmnd. 6732) ("Whitford Committee Report") recommended copyright protection for industrial designs, but also recommended a provision on marking that would have been inconsistent with the Berne Convention's general prohibition of such requirements. Some members of the Committee recommended a Johnston Committee copyright-type system for some designs, but there was no express reference to the implications of the Berne Convention, if any, for such a proposal. The U.K. Consultative Document, 1981, supra note 23, appears to take the latter view, supra, of the obligation under the 1948 level successor to Art. 2(4) of the 1928 level as it rejected the Whitford Committee's proposal for marking as inconsistent with the Convention.

27. The Paris Convention would entitle the proprietors to claim industrial design protection, however, in all Paris Union countries which had industrial design systems. There is a substantial, but not total, overlap between Paris Union and Berne Union members.

28. Berne Convention, 1971, supra, note 19, Art. 2(7).

29. The comments in the text refer only to what Union countries may be obligated to do by the Convention. Some countries may extend copyright protection to designs which originate in Canada even though they might not be obligated to do so by the Convention. For example, the U.K. extends copyright protection to designs whether or not copyright protection is available for designs in the country of origin of such designs. Whitford Committee Report, supra note 26, pp. 43-44.

30. Art. 32(1) of the 1967 revision of the Berne Convention provides that relations between two countries which have adhered at different levels are governed by the latest text accepted by both countries. There are few countries which have adhered at an earlier level than Canada (1928), and so Canada's relations with other members of the Union will tend to be at the 1928 level. Berne Convention, 1967 is reproduced in UNESCO, Copyright Laws and Treaties of the World (1978). Art. 32(1) appears in the group of administrative provisions of the 1967 revision to which a number of countries have adhered, including Canada, without adhering to the substantive provisions of the 1967 revision. Many other countries are bound by Art. 32(1) by adherence to the 1971 level of the Convention (either in its entirety or to the administrative provisions only). See the lists of states adhering to various levels of the Convention in UNESCO, Copyright Laws and Treaties of the World (1978, amended periodically). See WIPO Guide to the Berne Convention (1978), pp. 133-134, concerning Art. 32(1).

Under the 1928 revision of the Convention it appears to have been the obligation of member countries which gave copyright protection to works of applied art originating in their own countries, to give the same protection to such works originating in other countries of the Union regardless of whether those other countries gave such protection. Ladas, Patents, Trademarks and Related Rights, National and International Protection (1975) pp. 833-34. To the extent that the 1928 revision governs Canada's relations with other countries, this is the rule that would apper to apply.

The rule of the 1928 revision was objected to, however, and finally changed in the 1948 revision. In that revision it was provided that if a design received only industrial design protection in its country of origin, then other countries of the Union were obligated to provide only the same protection that those other countries provided to industrial designs (even though they might also protect designs as applied art if they originated in their own countries). Art. 7(3). See Ladas, supra, pp. 834-835. Countries which have adhered at this level presumably would like to apply this rule, even to designs which originate in countries which remain at the 1928 level such as Canada. See, for example, the recommendation of the Whitford Committee Report, supra note 26, p. 51 for U.K. law.

The 1967 level of the Convention featured a further amendment (which appears also in the 1971 level) which added the qualification to the 1948 level provision that, if a country of the Union did not offer industrial design protection, it was required to protect works of applied art as artistic works. See supra, text at note 28. Since many countries do offer industrial design protection, however, they would be permitted (as under the 1948 level provision) to offer only industrial design protection to designs originating in countries which gave such designs only industrial design protection.

31. The Whitford Committee Report, supra note 26, made this argument in favour of its recommendations to protect designs in the U.K. by a form of copyright, at pp. 31, 147.

32. The effect of Art. 2(7) of the 1971 level of the Convention is that if another Union country offers copyright protection to applied art, it must offer it on the same basis it does to its own nationals to works originating in any other Union country which also offers copyright protection to such works. The Article clearly reserves to each member country the right to determine whether or not to offer copyright protection to applied art, supra note 27, at least if the country also has an industrial design system.

Any such argument would assume that Canada's relations with other countries were governed by the 1948, 1967 or 1971 levels of the Convention. See text at notes 29 and 30 which suggests that the 1928 level must govern such relations.

33. Also, relations under the Berne Convention would have no effect on Canada's relations in this respect with the United States, our chief trading partner, which is not a member of the Berne Convention.

See Eder, E., Industrial Designs in the Whitford Committee's Report, (1977) CIPA 480 at 483-484.

34. Universal Copyright Convention (Geneva, 1952), reproduced in UNESCO, Copyright Laws and Treaties of the World (1978). The Convention was revised in Paris in 1971. Canada has not adhered to the 1971 revision.

35. Id., Art. IV(3). The 1971 revision makes no change in this requirement.

36. Supra, text at notes 6 to 9, and 23 to 26.

37. Even if the proposed industrial design system were regarded as an extension of the copyright system, which it is not, the duration of protection proposed, supra Ch. 8 text at note 4, would meet the ten year minimum in Art. IV of the UCC.

38. Supra note 34, Article IV(4).

39. Id., Article XVII and Appendix Declaration relating to Article XVII. See Copyright in Canada, Proposals for a Revision of the Law (1977), pp. 17-21.

40. The Hague Agreement Concerning the International Deposit of Industrial Designs published by WIPO, 1975. There have also been supplementary agreements in 1961, 1967 and 1975.

41. The 1960 revision of the Hague Agreement has not yet entered into force.

42. Johnston Committee Report, supra note 9, pp. 101-102. Whitford Committee Report, supra note 26, p. 32.

43. The major significant trading partners of Canada which are members are France, Federal Republic of Germany, Spain and Switzerland. Belgium and the Netherlands have ceased to be members and the U.S. and the U.K. have never been members. There are about 15 members in total.

44. Supra Ch. VI.

45. Economic Council of Canada, Report on Intellectual and Industrial Property (1971), pp. 42-43.

- READER'S NOTES -

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